

**ECONOMIC POLICY NETWORK**

**Policy Paper 22**

**PATTERNS OF LOCAL GOVERNANCE  
EXPENDITURES IN THE CONTEXT OF RURAL  
POVERTY ALLEVIATION**

**DR. PR Kandel**

September, 2006

**Prepared for:**

Economic Policy Network  
Government of Nepal/Ministry of Finance  
Singh Durbar, Kathmandu, Nepal  
Tel: 977-1-4211353  
E-mail: [epn@mof.gov.np](mailto:epn@mof.gov.np)  
Website: [www.mof.gov.np](http://www.mof.gov.np)

and

Asian Development Bank  
Nepal Resident Mission  
Srikunj, Kamaldi, Ward No. 31  
P.O. Box 5017, Kathmandu, Nepal  
Tel: 977-1-4227779  
Fax: 977-1-4225063  
E-mail: [adbnrm@adb.org](mailto:adbnrm@adb.org)  
Website: [www.adb.org/nrm](http://www.adb.org/nrm)

This report has been prepared by Dr. Puspa Raj Kandel, Decentralization Specialist.

Inputs from various stakeholders during interactions at Advisory Committee meetings, and the workshop organized by the EPN Focal Unit, have been incorporated in the report.

## Foreword

Economic Policy Network (EPN) initiated in August 2004 is an undertaking of Government of Nepal (GoN) with an Asian Development Bank (ADB) Technical Assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management; trade, investment and employment; infrastructure development; and tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Economic Policy on Tourism, Agriculture, and Regional Development chaired by the Secretary of the Ministry of Culture, Tourism, and Civil Aviation.

GoN has recognized local bodies as an important tool for economic development and poverty reduction. This study has attempted to critically appraise the existing patterns of expenditure of local bodies and their role in poverty reduction. In the present endeavor, it has also identified major issues and recommended few modalities to be undertaken by responsible agencies. The recommendations are the outcomes of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

I would like to thank Dr. Puspa Kandel for carrying out the study. I also thank all those who have provided inputs for the report during the interactions, the advisory committee meetings, and the EPN technical workshop held in Nepal Administrative Staff College, Jawalakhel, Lalitpur. The work of the Advisory Committee for Economic Policy on Tourism, Agriculture, and Regional Development is to be commended for selecting the issue and for following through with the study. I would also like to appreciate the entire EPN team for their hard work. Last but not least, I would like to thank the ADB for supporting this initiative.



Dr. Posh Raj Pandey  
Member  
National Planning Commission  
Government of Nepal  
[Chairman—EPN Steering Committee]

## Acronyms

ADB	Asian Development Bank
ADDCN	Association of District Development Committees
Admin	Administration
CBS	Central Bureau of Statistics
CDR	Central Development Region
CG	Central Government
DDC	District Development Committee
Devt.	Development
DFID	Department for International Development
DIMC	Decentralization Implementation and Monitoring Committee
DPP	District periodic plan
EDR	Eastern Development Region
e.g.	For example
Empower.	Empowerment
etc.	Etcetera
Exp.	Expenditure/Expenses
Far WDR	Far Western Development Region
GDP	Gross Domestic Product
GoN	Government of Nepal
Ha	Hector
HDI	Human Development Index
HDR	Human Development Report
HIV/AIDS	Human Immune Deficiency Virus /Acquired Immune Deficiency Syndrome
I.C.	Indian Currency
ILO	International Labour Organization
IMF	International Monetary Fund
Infrast.	Infrastructure
Inst.	Institution
LBFC	Local Body's Fiscal Commission
LB	Local Body
LDC	Least Developed Countries
LG	Local Government
LSGA	Local Self Governance Act
LSGA/R	Local Self Governance Act/ Rules
MoLD	Ministry of Local Development
NPC	National Planning Commission
MDG	Millennium Development Goal
Mid-WDR	Mid-Western Development Region
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PAF	Poverty Alleviation Fund
Prog.	Program
Rec.	Recurrent
R&D	Research and Development
Rs.	Rupees
SAARC	South Asian Association for Regional Cooperation
TP	Tenth Plan

UNDP	United Nations Development Program
USAID	United States' Agency for International Development
VDC	Village Development Committee
WB	World Bank
WDR	World Development Report/Western Development Region
WFP	World Food Program
WTO	World Trade Organization

## Table of Contents

Forewords	
Acronyms	
List of Tables	
List of Figures	
Chapter I Introduction.....	1
1.1 Rationale of the Study.....	1
1.2 Objectives of the Study.....	2
1.3 Methodology of the Study.....	2
1.4 Limitations of the Study.....	2
Chapter II Status of Rural Poverty in Nepal.....	3
2.1 Background.....	3
2.2 Poverty in Nepal.....	3
2.3 Overall Poverty situation in Nepal.....	4
2.4 Summing Up.....	4
Chapter III Poverty Alleviation Efforts in Nepal.....	6
3.1 Background.....	6
3.2 PR – Present Context (Tenth Plan).....	6
3.3 Different PR Programs.....	7
3.4 Summing Up.....	9
Chapter IV Linkage Points for Poverty Alleviation.....	11
4.1 Attacking Points for PR.....	11
4.2 Linkage Points for Poverty Reduction.....	12
4.3 Summing Up.....	17
Chapter V Local Governance and Poverty Alleviation.....	18
5.1 Background.....	18
5.2 Importance of Decentralization on PR in Nepal.....	19
5.3 Summing Up.....	20
Chapter VI Nepalese Local Governance Expenditures in the Context of Poverty Alleviation.....	21
6.1 Responsibilities of the LBs: As Per Law.....	21
6.2 Comparison of Local Expenditure Pattern in Different Countries.....	22
6.3 Patterns of Local Expenditure in Central Budget.....	22
6.4 Pattern of Expenditure in Local Bodies.....	24
6.4.1 Pattern of Expenditures in DDCs.....	24
6.4.2 Pattern of Expenditures in VDC.....	28
6.5 Status of Good Governance in Local Bodies.....	31
6.6 Some Problematic Aspects of Local Governance in the Context of PA.....	31
6.7 Summing Up.....	37
Chapter VII Findings, Conclusions and Recommendations.....	39
7.1 Background.....	39
7.2 Findings and Conclusions.....	39
7.3 Recommendations of the Study.....	41
References	
Annexes	

## **List of Tables**

- Table 2.1 : Status of Poverty in SAARC Region  
Table 2.2: Status of Poverty in Nepal  
Table 4.2 : Distribution of Study Findings on Impact of Infrastructure Investment on Productivity or Growth  
Table 4.3 Social Rates of Return on WB Projects (Unweighted Average 1960-2000)  
Table 6.1 : Pattern of Local Governance Expenditures in Different Countries (In Percentage)  
Table 6.2: Sub-national Share of Expenditures in Different Regions  
Table 6.3 : Trend of CG Expenditures for Local Development (In Percentage)  
Table 6.4: Status of Capital Expenditure of LBs  
Table 6.5: Pattern of Expenditures in DDCs (In Rs.)  
Table 6.6: Pattern of DDC Expenditure in the Year 2002/2003 (In Percentage)  
Table 6.7: Capital Expenditure Pattern of DDCs (In Percentage)  
Table 6.8: Forecasted Pattern of DDC Expenditure (In Rs.)  
Table 6.9: Forecasted Pattern of Expenditures in DDCs (in Percentage)  
Table 6.10 Devolved Expenditure of DDCs (In Rs.)  
Table 6.11 Program and Administration Expenses in VDCs (In Rs.)  
Table 6.12 Program and Administration Expenses in VDCs (In Percentage)  
Table 6.13 : Pattern of VDC Expenses in Comparison to Income (F.Y. 2002/03 in Percentage)  
Table 6.14 : Pattern of Expenses in Certain VDCs in Kathmandu District (In Rs.)  
Table 6.15 Pattern of Expenses in Certain VDCs in Kathmandu District in Percentage

## **List of Figures**

- Figure 4.1 : Effect of Infrastructure on Growth

## **Acknowledgements**

We all know that the major problem of Nepal for now and days to come is the poverty within Nepalese people. We also know that the instability including the armed conflict is ignited by this massive poverty. The major policy area that should be focused by international organizations, government, community organizations and private sector, therefore, is the alleviating of this humiliating poverty and making the Nepalese people able to live happy life. In this sense, this paper "Patterns of Local Governance Expenditures in the Context of Rural Poverty Alleviation" is an appropriate topic to policy makers and government in Nepal.

I would like to thank to EPN, ADB and Mr. Dipendra Purush Dhakal for providing the opportunity to prepare this valuable document. I am also thankful to various organizations like Ministry of Local Development, Local Body's Fiscal Commission, National Planning Commission, Association of District Development Committees, Nepal and other organizations for providing the information needed for this study. My special thanks goes to INLOGOS and its chairperson Mr. Khem Raj Nepal for facilitating this study and providing me a lot of suggestions. I am also grateful to Mr. Hem Raj Lamichhane, General Secretary of ADDCN, for providing valuable comments on this paper.

Dr. Puspa Kandel,  
Consultant

## **Executive Summary**

### **Rationale of the Study**

Nepal, being poor, has been one of the least developed countries in the world and so has dire need of economic development. If improvements in economic field are not made, it will be no where in Asia as a sandwiched country between giant two economies – India and China. Improvement in economic field, on the other hand, means reducing poverty. Since a large chunk of Nepalese people live below the poverty line, economic development ignoring them has no sense and virtually impossible too. The economic development in Nepal means uplifting the people from below the poverty line and providing human like living standard to them. Considering this, Nepal's major effort is concentrated in PA through TP.

Tenth Plan has taken local bodies as one of the four pillars of the development parameters. That means local bodies have great role in poverty reduction. For the sake of this purpose, local expenditures should be increased in one hand and they should be directed towards poverty alleviation. The present study is designed to see how far the current trend of local expenditures is as per the requirement of poverty reduction.

### **Objectives of the Study**

The major objective of this study is to conduct a study on expenditure patterns of local governance in the context of rural PA. The sub-objectives of the project are:–

1. Review the responsibility given to the LBs in Nepal;
2. Review the present status of LBs' expenditure in Nepal;
3. Review the present status of poverty in the rural sector of Nepal;
4. Review the rural PR strategy adopted in Nepal;
5. Identify the role of LBs in PR strategy of Nepal;
6. Identify the CG's responsibility that can be transferred to LBs in the context of rural PA;
7. Suggest policy improvements needed to strengthen LBs to reduce rural poverty in Nepal;

### **Methodology of the Study**

The study has adopted two pronged strategy to fulfill the objectives. First, literatures related to decentralization, rural poverty, the efforts related to alleviation of poverty are gathered from national and international context and are reviewed to get theoretical base and national and international practical experience. The literature collected includes those from CBS, Planning Commission, ADDCN, MoLD, LBFC, DDCs, VDCs and different websites in international context.

Second, expenditure pattern of DDCs and VDCs are analysed to find out the exact problems in the field on the basis of the key indicators developed from literature reviewed. The data collected from various sources are analyzed. Where necessary, the diagrams are used to make the logic plausible.

Most of the Data for VDCs and DDCs for analysis are taken from the office of LBs Fiscal Commission. The data used by that office two years ago to analyze the incomes and expenditures of LBs are used for this analysis. The budget plan and periodic plan of these bodies are also consulted for getting the trend of expenditure in LBs. In case of VDCs, since

there is no data base, some samples are taken from Kathmandu District and analyzed the expenditure pattern in detail.

### **Limitations of the Study**

The study is confined only to the expenditure pattern of VDCs and DDCs on sample basis. It has not covered the resource mobilization of 58 municipalities, NGOs and CG in rural level. Due to data constraint, the study has not been able to make micro analysis of the district and village level expenditure pattern.

### **Characteristics of Nepalese Poverty**

Basically, the characteristics of Nepalese poverty can be categorized as follows:

- It is universal but its intensity basically lies in Mid WDR and Far WDR and specially in mountain region,
- Poverty is basically centered in rural areas,
- It is centered on marginalized people, dalits, women headed households etc.,
- Basically, women of mountain region are suffering from poverty,
- Poor people have poor quality of land, they do not have skills etc.,
- Districts without road access are poorer than the districts with road facility,
- There is no poverty mapping in micro level. Due to this reason, it has been difficult to identify the real poor.

The result of such poverty is that there has been conflict, social fragmentation, crisis of nationalism, insecurity, constitutional deadlock and migration in Nepal. The women have adopted the heinous profession of prostitution, there are street children, people have gone to foreign countries including for work, engaged in smuggling, conflict, social unrest, environment degradation, drug trafficking and so forth. Therefore, the alleviation of poverty in Nepal has been a basic social agenda for sound economic development in Nepal. The government of Nepal and local governments should consider this fact while devising the economic policy.

### **Poverty Alleviation Efforts in Nepal**

Nepal has conducted various programs and projects for poverty reduction. They were introduced from sixth plan and are running till today. However, the government is not realizing the objectives of PR in near future. The major reason of being ineffective of the PR programs in Nepal are the wrong priority, lack of accurate information, ineffective targeting, weak policy, programs and projects, poor service delivery and weak monitoring and evaluation. In addition, social mobilization programs have been effective in reducing the poverty. It has increased social and economic capital.

### **Linkage Points for Poverty Alleviation**

Poverty can be alleviated if the expenditures of the government are streamlined effectively. The major attacking points while designing the expenditure plan are infrastructure development, providing basic services to the people, development of institutions, empowerment of the people and providing security from vulnerability. Development of transportation sector, basically, road, can be the major infrastructure which helps in poverty

reduction followed by agriculture research and dissemination, electricity, irrigation etc. Within service sector, education has major importance followed by health, agriculture and financial services. A government, if it wants to reduce poverty in practice, should concentrate on the development of these intervening variables or linkage factors.

### **Nepalese Local Governance Expenditures in the Context of Poverty Alleviation**

Local Self-Governance Act, 1999 and its rule have given certain responsibilities to the local bodies in Nepal. However, these responsibilities are not clearly defined; some of these responsibilities are given to all the levels of government, i.e., central government, DDCs and VDCs. Though given by law, certain responsibilities are still captured by line agencies of the central government. In comparison to international standard, the responsibility assignment is not appropriate. The role of local bodies in the context of poverty alleviation is also not effective. Some of the conclusions in this relation can be put forward as follows:

- Both in comparison to central budget and international comparison, Nepal's local expenditure is very low,
- Within total budget too, capital expenditure is low in local level.
- Program expenditure is greater than administration expenditure in DDCs. But this program expenditure includes the recurrent type expenditure also.
- In central grant, administration expenditure is greater than program expenditure, where as, the opposite is the situation in case of internal revenue. Program expense is higher than administration expense in this case. It is seen that the more the internal source revenue, the higher is the program expenditure.
- In total actual expenditure, the administration exp. covers the major part. In contrast, in planned expenditure, the capital part takes major place.
- Within forecasted capital expenditure, infrastructure covers major portion and within capital expenditure too, road construction covers major part.
- Within devolved expenditures, education has the major place covering more than  $\frac{3}{4}$ .
- There is no uniformity in expenditure heads of local bodies, especially, the VDCs.
- The higher the internal source of revenue, the higher is the infrastructure expenditure leaving almost negligible amount to service providing, empowerment, institutional reform and social security.
- There are lots of works to do in local level to make the financial practice transparent.
- The accounting format and expenditure head classification is not uniform within different DDCs and VDCs in the country.

Besides above, the local bodies do not have appropriate data base, their expenditures are not appropriately directed to poverty reduction, they have lacking of good governance and so forth. Their heavy administrative expenditure is one of the major hindrances in directing to attacking poverty. Vulnerable situation of the country and local bodies, lack of elected representatives, lack of capable manpower and infrastructure, lack of adequate planning and participation of people, lack of borrowing right, lack of private sector partnership, lack of poverty mapping, lack of expenditure tracking, economically and politically unviable unit, lack of adequate transfer from the center, lack of adequate source of revenue etc. may be other reasons in this respect. In conclusion, the pattern of local governance till today has not been PA friendly. Lots of improvements are needed if the spirit of the TP, donor agencies, UN and the *Great Janaandolan II* is to be achieved.

## Recommendations of the Study

A successful PA strategy in any country should have some distinct elements. First, it is necessary to identify the poor and know what their characteristics are. Second, it is important to understand the reasons and the factors that cause poverty. Third, it is required to design a set of specific policies to improve the living conditions of the poor. Finally, the implementation of these policies should be cost efficient and the institutions established to implement them should complement the policy stance. But in Nepal, they are not as specified above.

Considering the above stated facts, following suggestions can be forwarded to reduce poverty through the efforts in local level.

- Devolve the services like education, health, agricultural services etc. as per international standard and full devolution spirit,
- Internalize of Line agencies into local governments as earliest as possible,
- Provide more autonomy and direct funding to the local bodies,
- Devolve the revenue sources and right to determine the tax rate as far as possible,
- Enhance overall human capability in the LBs. Provide appropriate manpower to VDCs.
- Develop technical manpower in LBs,
- Increase the amount of transfer to the LBs and make it scientific and equitable too,
- Make the lending procedure of LBs, especially DDCs and VDCs, easier,
- Strengthen the public auditing system as introduced in the budget of this year.
- Improve the data base of the LBs,
- Concentrate LBs' efforts on institutional reform and empowerment of the people also.
- Introduce the technique of expenditure tracking in local level,
- Increase monitoring of LGs from MoLD and other oversight agencies and provide sufficient fund for that purpose. If possible, make special mobile team. DDCs should also monitor the VDCs.
- Increase the participation of different communities like women, dalit, janajatis, madhesis and underprivileged group to empower them while formulating policies and implementing them,
- Develop uniform classification of local expenditures and make them more poverty oriented. The classification base may be infrastructure (road, electricity, irrigation, agricultural research and extension, telecommunication etc.), services (education, health, agricultural, financial etc.),
- Maximize efforts to reduce administrative expenses and increase program expenses in local level,
- Restructure local bodies to make it economically, administratively and politically viable,
- Develop poverty mapping in household level also,
- Make the vulnerable group assistance amount more transparent and use it effectively,
- Spend more on rural roads, education and agricultural research and extension,
- Implement more income generation program like micro-credit, natural resource management etc. to make people financially strong,
- Increase the amount of money given to Local Development Fund, Garibsanga Bisheswor etc. and increase its activity area. Enhance their activity area also.
- Strengthen the financial system like, budgeting, performance audit, regular dissemination of financial report to upper level government and press etc.

- Develop appropriate system to make the use of the budget sent to local bodies especially in VDCs,
- Develop conducive relationship between internal audit section and account section with due recognition to audit work.
- Make pre-audit more effective.
- Bring uniformity in expenditure head classification and accounting format used by the LBs both in VDCs and DDCs,
- Review the periodic plan of DDCs where it is made. Where it is not prepared, induce them to do so. Consider about preparing periodic in VDC level also.
- Link periodic plan with annual plan in local bodies,
- Fully implement the LSGA and develop local level manpower responsible to local governments,
- Amend all the contradicting laws against LSGA,
- Make effective use of local bodies associations like ADDCN, MUAN and NAVIN in policy formulation, implementation and monitoring of activities related to decentralization.
- Initiate the system of appraising and evaluating of projects in local level as per LSGA Article 211,
- Activate DIMC.

We know, a heavy change in Nepalese polity has occurred after the Janaandolan II. Election of constituent assembly is going to be held in near future. Before constituent assembly election, an interim constitution is going to be drafted. As one of mandates of the Aandolan, the state itself is going to be restructured. Therefore, it would be appropriate to forward some recommendations applicable to that situation also. The following points may be useful in this respect :

- Give the status of local government to lower bodies,
- Reshape the LBs to make it economically, administratively and politically viable. For this purpose, go to three tiers of government. Village level government should be more than three times larger than the present one,
- Clearly spell out in constitution in relation to LGs, its responsibilities, revenue sources etc.
- Provide adequate sources of revenue basically natural resource source. Piggy backing system can be used in case of income tax. Devolve house rent source of tax to local bodies.
- Make the central government and MoLD effective. Local governments can not do well if the central government is weak.



# Chapter I

## Introduction

### 1.1 Rationale of the Study

Present world is the world of either globalization or localization. Due to immense development in communication and transportation system, the whole earth is going to be a global village. Each event in one country is not the thing of that country only. Rather, it is observed by and affects to the people of the whole world. The economic matter, whether it is industry or trade or finance or any other, is no exception in this respect. The ever increasing trade, foreign investment, labor movement is the examples of the increasing globalized world.

The other part of the coin is the localization which means independence, freedom and inclusion of the marginalized sector in the main stream of a particular country, area, village or a community. Now, especially in developing countries, this movement has gain extraordinary momentum. Nepal is one of those countries where the movement of localization is going on through the slogan of 'restructuring of the state'. Some years ago it was in the form decentralization, but now, with the success of *Janaandolan II*, it has been converted to restructuring of the state and inclusion of marginalized sector in the main stream. That means, strengthening local people through creation of strong LGs is one of the main agendas of the Nepalese main stream politics at present. Eighteen points agenda of mainstream parties passed at the time of fighting against autocracy, 12 points agreement between political parties and Maoist and the recent historical declaration of the restored parliament deal with this spirit in one form or other.

Nepal, being poor, has been one of the least developed country in the world and so has dire need of economic development. If improvements in economic field are not made, it will be no where in Asia as a sandwiched country between giant two economies – India and China. Improvement in economic field, on the other hand, means reducing poverty. Since a large chunk of Nepalese people live below the poverty line, economic development ignoring them has no sense and virtually impossible too. The economic development in Nepal means uplifting the people from below the poverty line and providing human like living standard to them. Considering this, Nepal's major effort is concentrated in PA through TP.

Restructuring of the state or decentralization initiative or localization is gaining momentum because LGs can be effective in PA scheme due to three reasons. First, they can identify the appropriate projects for human development and infrastructure development which are useful to generate income of the local people more accurately than the bureaucrats or politicians of the distant capital. It is also needed to create ownership of the local people on these investments which helps in its sustainability. Investments needed in thousands of villages will be decided by the villagers themselves. Second, decentralization system delivers key public services that affect the people in cost effective way. Education, basic health care and access to drinking water can be effectively provided by the LGs. Third, a decentralized system is useful for getting good governance and accountable government for achieving pro-poor, pro-growth economic environment. Local governance provides direct benefit to the poor people by strengthening their voice, representation and basic freedoms.

## **1.2 Objectives of the Study**

The major objective of this study is to conduct a study on expenditure patterns of local governance in the context of rural PA. The sub-objectives of the project are :-

1. Review the responsibility given to the LBs in Nepal;
2. Review the present status of LBs' expenditure in Nepal;
3. Review the present status of poverty in the rural sector of Nepal;
4. Review the rural PR strategy adopted in Nepal;
5. Identify the role of LBs in PR strategy of Nepal;
6. Identify the CG's responsibility that can be transferred to LBs in the context of rural PA;
7. Suggest policy improvements needed to strengthen LBs to reduce rural poverty in Nepal;

## **1.3 Methodology of the Study**

The study has adopted two pronged strategy to fulfill the objectives. First, literatures related to decentralization, rural poverty, the efforts related to alleviation of poverty are gathered from national and international context and are reviewed to get theoretical base and national and international practical experience. The literature collected includes those from CBS, Planning Commission, MoLD, LBFC, DDCs, VDCs and different websites in international context.

Second, expenditure pattern of DDCs and VDCs are analysed to find out the exact problems in the field on the basis of the key indicators developed from literature reviewed. The data collected from various sources are analyzed. Where necessary, the diagrams are used to make the logic plausible.

Most of the Data for VDCs and DDCs for analysis are taken from the office of LBs Fiscal Commission. The data used by that office two years ago to analyze the incomes and expenditures of LBs are used for this analysis. The budget plan and periodic plan of these bodies are also consulted for getting the trend of expenditure in LBs. In case of VDCs, since there is no data base, some samples are taken from Kathmandu District and analyzed the expenditure pattern in detail.

## **1.4 Limitations of the Study**

The study is confined only to the expenditure pattern of VDCs and DDCs on sample basis. It has not covered the resource mobilization of 58 municipalities, NGOs and CG in rural level. Due to data constraint, the study has not able to make micro analysis of the district and village level expenditure pattern.

## Chapter II

### Status of Rural Poverty in Nepal

#### 2.1 Background

Poverty is a universal as well as relative phenomenon. It is universal because it existed not only in present world; it was at the time of Ramayana and Mahabharata also. There are poor people not only in Nepal but even in the richest country of the present world like America. It is relative because the definition of poverty may differ from time to time and country to country. From ancient time to some years ago, the poverty used to mean lack of food to eat; during 1960s, it denoted lack of adequate income and during 1970s, it indicated lack of fulfilling basic needs. During 1980s and 1990s, it evolved from the notion of minimum level of subsistence to relative deprivation from maintaining the standards prevailing in given society (Boex et al, 2005: 2-2). Today it means deprivation from food, education, right of living, right of expression etc. Recently, other elements like capabilities, dignity, autonomy, vulnerability, voice, empowerment and participation have also been included.

World communities have focused its attention to poverty since some decades ago. United nation is the major world organ which is entertaining the poverty issue from the very beginning of its creation. The publication of HDR since 1990 and declaration of MDG are the major examples in this respect. Other multinational agencies like WB, IMF, ADB, WTO etc. also have concentrated some of their efforts in this field.

As other countries in the world, Nepal also has accelerated efforts to eradicate poverty for several years in past. Especially from Ninth Plan, the whole hearted effort of the government is concentrated on PA. Current TP and Nepal MDGs are the examples in this respect. All the organs of the country including LGs are given certain responsibility of performing work related to PA.

#### 2.2 Poverty in Nepal

As already said Nepal is a poor country having place in 136<sup>th</sup> position in UNDP, HDR 2005 with 0.526 human development Index, 61.6 years of life expectancy at birth, 48.6 % literacy rate, 61 % of enrolment in schools, \$ 1420 GDP per capita (PPP), 0.61 life expectancy index, 0.53 education index, 0.44 GDP index (Table 2.1). In comparison to neighboring countries in SAARC Region, Nepal is the poorest except Bangladesh.

**Table 2.1 : Status of Poverty in SAARC Region**

Country	HDI	Life Expectancy at Birth	Adult Literacy Rate	Gross Enrolment Ratio in School	GDP Per Capita (PPP)	Life Expectancy Index	Education Index	GDP Index	HDI Rank
Nepal	0.526	61.6	48.6	61	1420	0.61	0.53	0.44	136
India	0.602	63.3	61	60	2892	0.64	0.61	0.56	127
Bangladesh	0.520	62.8	41.1	53	1770	0.63	0.45	0.48	139
Sri Lanka	0.751	74	90.4	69	3778	0.82	0.83	0.61	93
Pakistan	0.527	63	48.7	35	2097	0.63	0.44	0.51	135
Bhutan	0.536	62.9	47.0	-	1969	0.63	0.48	0.50	134
Maldives	0.745	66.6	97.2	75	-	0.69	0.90	0.65	96
China	0.755	71.6	90.9	69	5003	0.78	0.84	0.65	85

Source: UNDP (2005), *HDR, 2005*, New York.

## 2.3 Overall Poverty situation in Nepal

Table 2.2 shows the overall poverty situation in Nepal. As per the table, percentage of households not having adequate food consumption, housing, clothing, health care, schooling and total income are 31.2%, 40.6%, 35.6%, 28.3%, 21.4% and 67% respectively. Adult illiteracy rate of the population of 15 years or more is around 48% covering 33.8% for women and 64.5% for men. Similarly, only 59.4 % of the children are immunized. The people having access to electricity, piped water and toilet facility comprise only 37.2%, 43.9% and 38.7% respectively. Majority of the households do not have easy access to the primary school, health post, agricultural center, commercial banks, paved roads etc. However, the table says that during 1995/96 to 2001/2002, the poverty rate had fallen significantly.

**Table 2.2: Status of Poverty in Nepal**

<b>Percentage of household less than adequate</b>	NLSS-I	NLSS-II
Food consumption	50.9	31.2
Housing	64.1	40.6
Clothing	57.6	35.6
Health care	58.7	28.3
Schooling	45.4	21.4
Total income	72.6	67.0
<b>Adult literacy (15+)</b>	35.6	48.0
• Female	19.4	33.8
• Male	53.5	64.5
Enrolment in primary school	57.0	72.4
• Female	46.0	66.9
• Male	67.0	77.9
<b>Use of different goods</b>		
Children fully immunized	36.0	59.4
Access to electricity	14.1	37.2
Access to piped water	32.8	43.9
Access to toilet facility	21.6	38.7
<b>Household access to facility within 30 minutes</b>		
Primary school	88.4	91.4
Health post/hospital	44.8	61.8
Agriculture centre	24.5	31.9
Commercial banks	20.7	27.8
Paved road	24.2	37.2
Motorable road	58.0	67.6

Source: NPC (2005), *An Assessment of the Implementation of the TP*, Second Progress Report, Kathmandu.

The details of poverty analysis in Nepal is given in Annex 2 of the Study.

## 2.4 Summing Up

Fifth Africa Governance Forum, 23-25 May, 2002 has defined rural poor correctly. It says "the rural poor are likely to work as small farmers, herders or – increasingly – as landless laborers; live in more remote and/or more marginal and degraded areas, working in farm land which is relatively less productive, often degrading, and ill-watered; have less access to

primary education, basic healthcare, clean water or sanitation; have less access to agricultural technologies (information, inputs); have worse access to roads to travel outside their communities, to go to markets or visit social facilities; rely more on, but have increasing difficulties in accessing “common property” pasture, fuel wood, or water resources; suffer higher rates of mortality and morbidity, lower life expectancies; be less informed about or involved in matters of (central or local) public policy and tend to be excluded from local consultative or decision-making fora; be at greater risk of petty theft and violence, and women vulnerable to abuse, rape and matrimonial violence; be subject to disrespect from or even abuse by local officials; and live in female-headed households, to be elderly or young children". Nepalese condition of poorness is also exactly the same. Basically, the characteristics of the Nepalese poverty can be categorized as follows:

- It is universal but its intensivity basically lies in Mid WDR and Far WDR and specially in mountain region,
- Poverty is basically centered in rural areas,
- It is centered on marginalized people, dalits, women headed households etc.,
- Basically, women of mountain region are suffering from poverty,
- Poor people have poor quality of land, they do not have skills etc.,
- Districts without road access are poorer than the districts with road facility,
- There is no poverty mapping in micro level. Due to this reason, it has been difficult to identify the real poor.

The result of such poverty is that there has been conflict, social fragmentation, crisis of nationalism, insecurity, constitutional deadlock and migration in Nepal. The women have adopted the heinous profession of prostitution, there are street children, people have gone to foreign countries including for work, engaged in smuggling, conflict, social unrest, environment degradation, drug trafficking and so forth. Therefore, the alleviation of poverty in Nepal has been a basic social agenda for sound economic development in Nepal. The government of Nepal and local governments should consider this fact while devising the economic policy.

## Chapter III

### Poverty Alleviation Efforts in Nepal

#### 3.1 Background

In Nepal, the process of planned economic development began in 1956. Until the fourth five-year plan period (1970-1975) the major strategy was to build economic and social infrastructures. The fifth five year plan (1975-1980) adopted a new approach to setting objectives, such as increasing the production of mass oriented goods, ensuring the maximum utilization of the workforce, and the promotion of regional balance and integration.

Though, poverty has always been a problem in Nepal, policy makers took it seriously only since Sixth Plan (1981-1985). In the Seventh Plan period (1986–1990), the government formulated its program for the fulfillment of basic needs. This plan sought elimination of poverty in Nepal over a 15-year period.

PA was one of the major objectives of the Eighth Plan (1993–1997), the first national plan formulated after the restoration of multi-party democracy in 1990. Eighth Plan had the objectives of sustainable development, eradication of poverty and reducing regional differences. The major priority area of the Plan was agriculture, energy development and rural infrastructure development. The plans and programs of the eighth plan were subsidy and transfer programs, integrated rural development projects, food and feeding programs, targeted credit programs, employment programs, skills-generating programs, special programs for backward ethnic communities and the landless settlers' problem resolution commission and *Kamaiya abolition program*.

The Ninth Plan (1998–2002) had sole objective of PA. The major goal of the Ninth Plan was to lower poverty incidence from 42% to 32% by the end of the Plan period in 2002. In addition to this target, other variables relating to literacy, infant mortality, maternal mortality, and average life expectancy at birth had been identified, and target levels for each of these had been set. The pathways to reduce poverty in Ninth Plan were (i) sustained and broad-based growth, (ii) development of rural infrastructure and social priority sectors, and (iii) specific programs targeting the poor.

#### 3.2 PR – Present Context (Tenth Plan)

The TP has also the sole objective of reducing poverty. For the purpose of reducing poverty, it focuses on four areas consisting high, sustainable and wide growth rate, social sector and rural infrastructure, targeted program and good governance. Specially focused area are agricultural development, sustainability of environment and biodiversity; rural infrastructure development and rural energy; population management, social service and basic social security, development of tourism, water resource, information technology, industry and trade with role of private sector; human resource development and women empowerment, targeted program to dalit, janajatis and underprivileged people; capability building of LB and civil society organizations, development of remote area and regional development; guarantee and development of good governance, protection of environment, development of national and rural infrastructure etc.

TP has taken LBs as one of the four partners (Others are CG, private sector, non-governmental organizations) that are given responsibility in this respect to PA. The role of LBs in TP is concentrated in increasing participation and mainstreaming the marginalized people. It has emphasized on empowerment, good governance, establishing civil society based on democratic process, transparent practice, public responsibility etc. It is anticipated that LBs will help in population control, PA, employment increase, women empowerment, mainstreaming of janajatis, dalits and women, security of handicapped etc. In addition, enhancing capability of LBs themselves to make them capable of running projects, development and distribution of local resources properly, seeking cooperation of government, non-government, community and private to mobilize the local people are the responsibilities of the LBs.

PA programs in TP are small farmers development programs (SFDP), production credit for rural women (PCRW), rural self-reliance fund (RSRF), rural development banks (Grameen Banks), intensive banking program (IBP), Bishweswor PA program etc. The major programs that are executed and are in execution to alleviate the poverty in Nepal are as follows:

### **3.3 Different PR Programs**

#### **Immediate Action Plan**

It is one of the programs of government in the front of reducing the poverty. Immediate action plan started after the Nepal Development Forum meeting 2000. The plan focused on public expenditure reform and improvement in public service delivery covering three areas like prioritizing public expenditure, improving service delivery and strengthening anti-corruption and accountability measures.

#### **Medium Term Expenditure Framework (MTEF)**

Accepting the weaknesses related to ineffective implementation of development plans, poor governance, weak accountability and inefficient service delivery as the major reason of low growth and high poverty incidence, Public Expenditure Reform Commission was formed in 2000 which made several recommendations related to efficient use of scarce resources. Medium Term Expenditure Framework was designed to correct this by linking the annual programs and budgets with the periodic plan, prioritizing programs and expenditures in relation to the periodic plan's goals and objectives, adjusting annually the expenditure with resource availability, maintaining macro economic stability and providing funding guarantee to those activities on the basis of priority rankings. On the basis of criteria developed, the projects were categorized under P1, P2 and P3 under the policy of providing fund to P1 projects immediately.

#### **Targeted Program and Projects**

The government conducted targeted programs in different districts implemented under different ministries and NPC. The programs and projects are operated, basically, under social mobilization programs including the activities of formation of groups, saving mobilization, skill development and construction of small infrastructures.

#### **National Development Volunteer Service**

Considering the lack of capable manpower in rural areas, this program has been started since 1997/98 sending volunteers to rural areas to reduce poverty.

### **Rural Community Infrastructure Development Program**

MoLD is implementing this program under World Food Program since 1995/96. Now, it is running in 45 districts of the nation. The projects that run under this project are small infrastructure including roads, trails, bridge, small canals, ponds and river controls.

### **West Terai and Mountain PR Project**

This program is conducted in 8 Terai districts of Western Nepal where landless, small farmers and rural women are served. The project is run under International Fund for Agricultural Development. Similar projects are run by the same donor in different high mountain districts of Mid and Far WDR.

### **Remote and Special Area Development Program**

The activities done under this program include construction of physical infrastructure like drinking water, irrigation, horse trails, suspension bridge, electricity and skill training. This type of program is implemented in 47 districts.

### **Rural Access Program**

Conducted under the grant of United Kingdom government, this program is running in six districts. It has mainly focused on rural road construction.

### **Provision of Local Development Fund (LGP, PDDP, DLGSP and Garibsanga Bisheshwor)**

Local Development fund is established under DDC but is an autonomous fund. The main objectives of this fund are to provide financial, technical and institutional support to village development programs, to create self-reliant community organizations and to develop manpower for reducing poverty in the village. This fund provides certain amount of loan to local community institutions and it is of revolving type. GoN, donor communities etc. provide money for this fund. The priority of such loan goes to the poorest of the poor in the community, especially, dalits, janajatis, women etc. The loan amount uses to be maximum of up to Rs. 3000 or the amount equal to 5 times of one's saving. Some seed money is provided from this fund. Another program named Garibsanga Bisheshwor is run under LBs directly related to PA. These two programs work for PR by forming community organizations. The programs aim to support local communities and local governments in institutionalizing community organizations as self-governing and self-sustaining institutions to facilitate participatory development. These type of programs, whether it is PDDP or LGP, DLGSP or Garibsanga Bisheshwor, are being very useful to reduce poverty.

### **Primary School Nutritious Food Program**

This program was implemented with the support of World Food Program with the objectives of increasing class attendance, increasing enrolment rate of girl children, increasing pupil's interest and capability to study and controlling worm infestation.

### **Forest for Livelihood Program**

This program was implemented under DFID with the objective of supporting forest users through enhanced community forest management. Under this program forests are handed over to forest management groups and training to them are provided in relation to forest management.

### **Rehabilitation of Freed Bonded Labour (Kamaiya) and Career Development Program**

Under ILO assistance, this program has envisaged to rehabilitate freed Kamaiyas to increase income generating opportunities and conduct income generating activities by forming groups and empowering them.

### **Agricultural Perspective Plan**

A long term plan for development of Nepal through the development of agriculture, named Agriculture Perspective Plan was formulated by Nepalese government. The plan consists of 20 years vision related to the development of agriculture in Nepal. This plan has given first priority to irrigation following the development of rural roads and power, technology and fertilizer. This plan envisages the increase of agriculture growth rate from about 2 percent annual to 5 percent annual. The plan had identified certain priority inputs as well as outputs. The plan seeks: (a) the promotion of increased use of chemical fertilizer by farmers; (b) the construction of small irrigation projects such as tube wells and small canals; (c) the construction of agricultural roads and rural electrification; and (d) the promotion of appropriate agricultural technology.

### **Poverty Alleviation Fund**

PAF has been implemented since 1999/2000 with the objectives of improving access for poor necessary services and empowering and involving them in decision making process. Previously, it had aimed to empower and uplift people through socio-economic and infrastructure activities, strengthen monitoring and evaluation, bring all the targeted interventions under the PAF. But now it has changed the objectives slightly which consists increasing incomes through access to productive assets, providing employment and increasing the voice of disabled. It is targeted in six poor districts for experimentation. The PAF is financing income generating projects for poor and excluded small scale infrastructure and capacity building. The PAF has two types of targets – village and beneficiary.

### **Millennium Development Goals (MDGs)**

Nepal entered in MDG process in 2002. Then on, a number of steps are taken to make TP and MDG compatible to each other. In this process, the government has framed the MTEF and Poverty Monitoring and Analysis System at the NPC. There is plan to develop District Poverty Monitoring and Analysis System. In this respect, efforts are made to control corruption and down sizing the government and use merit system. The focus areas of the project that should be achieved by the year 2015 are reducing percentage of people below the poverty line to 17 percent, increase net enrolment and women literacy to 100 percent etc. The details about the target of MDGs are given in Annex 5.

### **Other Projects**

In Financial Year, 2004 only; there were 20 projects under MoLD basically directed to PR (MoLD, 2004).

## **3.4 Summing Up**

The WB's review of the development effort in Nepal in recent day as presented in following words clearly expresses the position of Nepal in terms of its development efforts :

"Initial results of the latest household survey suggest that poverty declined from 42% in 1996 to about 31% in 2003/04. Higher agricultural incomes combined with a swift increase in remittances were associated with these first

signs of falling poverty. Consistent with the decrease in consumption poverty, surveys also show a perceptible improvement in related human development indicators, higher consumption of durables, and significantly greater access to services. Despite this progress, Nepal remains very poor given that it started its development from a very low base and late. Nepal is also unlikely to achieve key MDGs such as universal primary education, child malnutrition, maternal mortality, and access to safe drinking water. More importantly, the differences in poverty and human development indicators across different regions, ethnic groups and castes have persisted, which gives rise to social stress and conflict. Reduced GDP growth in recent years may have reversed gains in PR made until 2001."

From the above statement, it can be concluded that in spite of so many efforts, the government is not realizing the objectives of PR in near future. The major reason of being ineffective the PR programs in Nepal are the wrong priority, lack of accurate information, ineffective targeting, weak policy, programs and projects, poor service delivery and weak monitoring and evaluation. In addition, social mobilization programs have been effective in reducing the poverty. It has increased social and economic capital. **The role of local bodies associations is also appreciable.**

## Chapter IV

### Linkage Points for Poverty Alleviation

#### 4.1 Attacking Points for PR

Poverty can be eradicated if the reason of poverty is clearly diagnosed. Globally, the reason of poverty is the feudalistic land system, geographical disintegration, unemployment and under employment, high rate of population growth, unequal income distribution, low rate of growth, instable and based on monsoon growth, no coverage of rural area in growth related activity, low human development index, ineffective public expenditure, lack of good governance and political instability. In short, these factors can be categorized into lack of infrastructure services, lack of access to assets, lack of empowerment and lack of good governance. And since the poverty lies due to lack of infrastructure facilities, education and other basic services, institutional lacking, lack of income generating financial services, social exclusion and lack of participation in decision making affecting oneself, the poverty can be reduced attacking on these factors vehemently (WB, 2001; Nepal and Amatya, 2006).

Different national and international agencies in their research findings have accepted this view and forwarded the proposals to alleviate the poverty. Out of them, WDR 1990 presents it as two part strategy - promoting labor-intensive growth through economic openness and investment in infrastructure and providing basic services to poor people in health and education. WDR 2001 guides attacking poverty in three ways: promoting opportunity, facilitating empowerment, and enhancing security. A joint study of WB and UNDP (1991) forwards increased rural access, intensification of basic education, off-farm income generating activities and improvements in health, nutrition, and access to food as the way out to reduce poverty. WB study related to Nepal in 2001 suggests investing in human resources and providing safety nets and effective use of public expenditure in public sector as the way out to reduce poverty. Rural PR in South Asia, Seminar organized in November 2001 by the ADB Institute, IFAD, the Aga Khan Foundation and the Institute for Development Studies, Jaipur (IDSJ), India suggests to focus on rural infrastructure development, promoting agro-based industries and rural tourism and increasing crop intensity as the measures to reduce poverty. HDR, 1997 says empowering individuals, households and communities to gain greater control over their life and resources through providing access to assets, credit, other financial services, land house; food security, education and health and social safety nets to prevent from disaster; empowerment of women providing job opportunities, access to education and health, land, credit actions to end domestic violence etc. as the way out to reduce poverty.

Similar to these lines of thinking, TP in Nepal has proposed certain measures to reduce the percentage of people under poverty line. First, among them may be economic indicator just like increasing access to means of production, access to market, access to nearby road, access to employment, improving macro economic indicators. Improvement in human development index is second area. The sub-points may be reduction in population increase rate, increase in number of schools, reduction in time taken to go to school, increase in teacher-student ratio, improving physical condition of school, increasing budget and expenditure in education, increasing access to vaccine, reducing time taken to reach health post, increasing ratio of health activist to population, increasing distribution of contraceptives, increasing number of services in child delivery, increasing the number of people having safe drinking water, increasing children benefiting from the nutrition program, reducing time taken to carry

drinking water and so forth. Third point is gender mainstreaming where the intervention should be made on female discrimination. It includes increasing scholarships to women, increasing protection given to women by political parties, increasing number of employees in government and non-government sector, providing special training required to administrative promotion, increasing participation of ladies teacher in primary level etc. Fourth sector is improvement in poverty of backward communities where the interventions should be made. This includes increasing number of scholarships, number of teachers, number of students in school, number of students in technical training, number of backward community health workers, provision of moving health post in backward community etc.

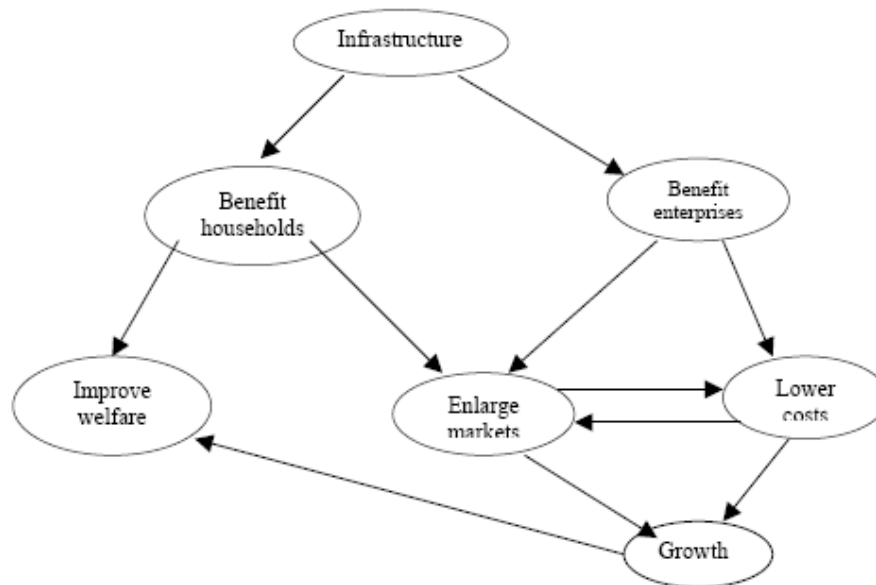
## **4.2 Linkage Points for Poverty Reduction**

In light of the causes of poverty and the studies related to PR strategy in world and Nepal, we can find out mainly 5 indicators where the government should intervene for reducing poverty. These indicators are infrastructure, basic services, empowerment, institutional strengthening, and security from vulnerability where the government should focus its attention to reduce the poverty. The following discussions have shed light why and how these indicators are important in reducing poverty.

### **a. Infrastructure**

Infrastructure covers road, electricity, agriculture research and investigation, telecommunications, mine developments, irrigation etc., which are basically prepared for accelerating economic growth. Basically, it is the physical investment of the government which helps in increasing the productivity of a nation. The historical evidence shows that other things remaining the same people become politically more active as GDP grows and as their stake in the economy and society rises (Dethier, 2004) and the GDP grows with the increase in infrastructure. It is proved empirically too. For example, a study involving 121 countries for the years 1960 to 2000 has suggested that economic growth is positively related to the stock of infrastructure assets and that income inequality falls with higher infrastructure quantity and quality. Infrastructure both raises growth and lowers income inequality (Quoted in Parker et al, 2006). Returns tend to be higher in low-income than in middle- income countries (Estache, 2000). Figure 3 as presented below shows how the infrastructure affects the growth in economy.

**Figure 4.1 : Effect of Infrastructure on Growth**



The following table shows the effect of infrastructure on economic development. As per the table, of the 102 studies showing infrastructure and growth relationship, 53 has shown positive relationship. The effect of infrastructure increases with the scale of less development. That means, infrastructure has greatest effect on growth in developing countries.

**Table 4.2 : Distribution of Study Findings on Impact of Infrastructure Investment on Productivity or Growth**

Area Studied	Number of Studies	Percentage showing Positive Effect	Percentage showing no Significant Effect	Percentage showing Negative Effect
Multiple Countries	30	40	50	10
United States	41	41	54	5
Spain	19	74	26	0
Developing Countries	12	100	0	0
Total/Average	102	53	42	5

Source : Briceño-Garmendia, Cecilia, Antonio Estache, Nemat Shafik (2004), *Infrastructure Services in Developing Countries: Access, Quality, Costs and Policy Reform*, WB Policy Research Working Paper 3468.

Out of different categories of infrastructures, as shown by different investigations, road has major importance. One study done in India by International Food Research Institute has shown that road construction has the greatest impact on poverty in comparison to other infrastructure developments. It shows that by investment in road construction of Rs 100 billion (I.C.), the incidence of rural poverty would be reduced by 0.87 percent. For each Rs 1 million (I.C.) increase in investment in roads, 165 poor people would be lifted above the poverty line. Other expenditures that follow road construction are research and extension in rural areas, education, rural development, irrigation and power in second, third, fourth and

fifth priority in order (Fan et al, 1999)). These types of investment not only have a large impact on PR for each additional rupee spent, but they also give rise to the greatest growth in agricultural productivity. Better roads bring new sources of employment, and they enable goods to move to and from markets with greater ease. Research of Fan, Zhang, and Zhang (2000) in China has shown similar effect but differently. It says, government spending on rural communication, roads, and electricity has the second, fourth and fifth largest impacts on rural PR. Another research of the same researcher in Thailand shows public investments in agricultural R&D, irrigation, rural education, and infrastructure (including roads and electricity), have positive impacts on agricultural productivity growth and rural PR. Additional government spending on agricultural research and development improves agricultural productivity the most and has the first largest impact on rural PR. Investments in rural electrification reduce poverty the most and have the second largest growth impact. These two investments dominate all others and are win-win for growth and PR. Road expenditure has the third largest impact on rural PR, but only a modest and statistically insignificant impact on agricultural productivity. Government spending on rural education has only the fourth largest impact on poverty, but a significant economic impact through improved agricultural productivity. Irrigation investment has the smallest impact on both rural PR and productivity growth in agriculture. This study says higher returns to road investments than telecommunications and electricity in remote areas, but where there is already high investment in road, electricity has the highest return. In most of the researches irrigation investment has had only modest impact on growth in agricultural production and an even smaller impact on rural PR even after trickle-down benefits have been allowed for. WB's calculation of social return rate of different infrastructures as shown in Table 4.3 also shows the importance of road to reduce poverty in developing countries.

**Table 4.3 Social Rates of Return on WB Projects (Unweighted Average 1960-2000)**

Region	Energy/Mining	Telecoms and Information	Transport	Urban	Water and Sanitation
Africa	14.1	20.6	25.5	21.3	7.5
East Asia	18.3	19.5	24.8	20.3	10.5
Eastern Europe	30.9	31.1	25.8	15.7	9.8
Latin America	12.8	16.6	22.4	19.2	11.0
Middle East	12.3	26.9	25.1	16.5	7.8
South Asia	23.2	22.0	24.1	14.9	9.8
Developing World	18.4	21.5	25.4	19.2	9.2

Source: WB, Operations and Evaluation Department Database

All these mean that an underdeveloped country should concentrate its efforts in infrastructure services at first and within infrastructure also, on road since it has the greatest impact.

**b. Basic services**

Basic services provided by the state have significant effect on PR. These services include education, health, agricultural services, financial services etc. The importance of these services for PR is discussed as follows:

## **Education**

There are six reasons why government should promote education. First, human development is an end in itself, which needs no further justification. Second, it is a mean to higher productivity. Third, it reduces human reproductivity, by lowering the desired family size. Fourth, human development is good for the physical environment. Fifth, it helps on healthy civil society, democracy and greater social stability. Sixth, it has political appeal, for it may reduce civil disturbances and increase political stability (Streeten, 1994). Due to all these reasons, most of the researches in different countries show education as the major public investment sector. The researches of Fan et al, as presented earlier also shows the importance of education in different countries. From the following word of Nelson Mandela also, it can be known that education has great importance in PR and empowerment.

"Education is the great engine of personal development. It is through education that the daughter of a peasant can become doctor, that the son of a mineworker can become the head of a mine and that the child of a farm worker can become the president of a great nation." (Mandela, ...: p. 194)

## **Health Services**

It is accepted by all the corners of the society that health is wealth. Since good health gives higher productivity and longer life, it helps in reducing the poverty of income and social factors. Health status of a country's work force is a key determinant of potential for economic growth and economic development. There is two way relationships between health and income. Higher income has outcome of better health, better health also improves income of a person. Specific reasons for poor health among poor households include suboptimal nutritional intake, lack of access to clear water, exposure to unhealthier living environments, unhealthier lifestyles and engagement in riskier activities. Access to pure water supply, sanitation, nutrition, vaccines and control of infectious diseases can increase the life expectancy of rural areas.

## **Agricultural Services**

Agriculture, in its broadest sense, constitutes a major opportunity for improving the well-being of the developing economies, where the majority of people still live in rural areas. To the extent that agriculture extension and livestock development focus on supporting agricultural production by poor subsistence farmers and small-holders, the link between agricultural programs and PR is often even more direct than in the cases of education and health care, in some cases. The dissemination of technical know-how to small farmers, improved or subsidized access to seed and fertilizer, support for irrigation schemes, improved market access, or the provision of veterinary services for livestock owners provides a benefit that is directly proportional to the increase in production that result from these interventions. Thus, to the extent that agricultural extension and support programs are effective in increasing agricultural production, these programs directly increase the earning potential of poor rural households.

If we were to look back to some historical patterns, we would see that the countries which are reducing poverty today are countries which invested a lot in their agriculture in the past. In almost every case, from Europe in the 19th century to the more recent cases of China and Viet Nam in the 1980s, agricultural growth has played a critical role in PR. In southern India the average real income of small farmers rose by 90 percent and that of landless labourers by 125 per cent between 1973 and 1994 as a result of the Green Revolution. In largely agrarian economies there has been no such massive and rapid reduction of poverty, without rapid and

broad-based agricultural growth. Looking at the 1990s, there is a striking correlation between the regional patterns of agricultural growth and the patterns of PR reported above. Progress towards MDG in the 1990s, particularly in East and South- East Asia, is associated with rapid agricultural growth in the context of relatively egalitarian distribution of landholdings and increasing agricultural labour productivity. In contrast, persistent or increasing poverty at very high levels in sub-Saharan Africa correlates with stagnant agriculture productivity and decreasing per-capita output. All these discussion show that agricultural development covering technical know-how to small farmers, improved or subsidized access to seed and fertilizer, support for irrigation schemes, improved market access, or the provision of veterinary services for livestock have good impact on PR.

### **Economic Services**

Economic services help in reducing poverty through facilitating access by the poor to key productive assets, including land and credit; investing in the human capital of the poor in areas such as health and population programs, agricultural technology transfer; supporting activities that allow women to contribute and benefit from development, employment generating programs and investing in the future through support for programs aimed at lifting children out of poverty. Tourism also comes within this category which can help in reducing poverty. Access to credit with low interest rate, access to market etc. can also be economic services that help in reducing productivity. Recent success of micro-credits in Bangladesh has shown that how important can be micro-credit in reducing poverty. In Nepal too, such type of programs like access to credit, interest rate, access to market, institution etc. have great impact on PR.

### **b. Institutional factors**

Institutions are rules, enforcement mechanisms and organizations. They are the rules, including behavioral norms by which agents interact and the organizations that implement rules and codes of conduct to achieve desired outcomes. Corporate, collateral, bankruptcy laws, judiciary, tax collection agencies and regulatory agencies are the institutions. As per WDR 2002, institutions do three things – they channel information about market conditions, goods and participations; they define and enforce property rights and contracts, and determine who gets what and when and they increase competition in markets or decrease it. Land ownership, financial system in rural areas, financial system in urban areas, political parties, level of corruption, judicial system, competition, regulation of infrastructure, media etc. are the institutions to the poor. Institutions help in reducing poverty by improving the poors' access to and engagement in governance processes; including participation in decision-making; helping to develop more effective, efficient and transparent administration; strengthening law and justice, human rights, democratic institutions and developing civil society, and supporting actions that take account of disadvantaged groups in society, including minority groups, the disabled and the aged. In essence, institutions help in promoting opportunity to the people. It provides higher quality contracting institutions, better law enforcement, increased protection of private property rights, improved CG bureaucracy, smoother operating formal sector financial markets, increased levels of democracy, and higher levels of trust. All these help in reducing poverty.

### **c. Empowerment**

Empowerment means increasing the ability of people to influence the management of where they are stakeholders. Empowerment ingredients are motivation, awareness raising and training, resource mobilization, linkage building and self-management Empowerment is defined as having the ability to shape one's own life. The concept of empowerment covers a

number of external and internal constraints which can prevent individuals to take advantage of economic opportunities and participate in the growth process. Empowerment is also about households being able to report the performance of and exercise influence over utilities that supply them with electricity or water. Empowerment is also about having some security over assets, such as the land or house that an individual occupies. If rights are secure, an individual is much more likely to have the confidence to invest in the land or house. He or she can rent it out if a decision is made to move temporarily in search of work. It can be used as collateral for loans to make investments. All these mean that secured property rights, particularly for land and houses, play a vital role in the ability of people—especially poor people—to shape their lives. Such rights are key aspects of empowerment. The others are inclusion of different sections of society in political process, taking part in decision making process related to themselves, participation in government procedures etc.

#### **d. Security from Vulnerable Situation**

It is accepted that the poor people suffer more from vulnerable situation. They are more prone to suffer from natural calamities, economic shocks, violence and other disturbances. So, PR means reducing the risks of poor from such shocks. Enhancing security for the poor people means reducing their vulnerability to such risks as ill health, economic shocks, and natural disasters and helping them cope with adverse shocks when they do occur. PR strategies can lessen the vulnerability of poor households through a range of approaches that can reduce volatility, provide the means for poor people to manage risk themselves, and strengthen market or public institutions for risk management. The tasks include preventing or managing shocks at the national and regional level—such as economic downturns and natural disasters—and minimizing the impact on poor people when they do occur. Supporting the range of assets of poor people—human, natural, physical, financial, and social—can help them manage the risks they face. And supporting the institutions that help poor people manage risk can enable them to pursue the higher-risk, higher-return activities that can lift them out of poverty. Improving risk management institutions should thus be a permanent feature of PR strategies. The tools include health insurance, old age assistance and pensions, unemployment insurance, workfare programs, social funds, microfinance programs, and cash transfers. Safety nets should be designed to support immediate consumption needs—and to protect the accumulation of human, physical, and social assets by poor people. WFP vulnerability analysis suggests that food insecurity and vulnerability are likely to be more severe in the far-western mountain and hill districts, as well as the eastern mountains in Nepal. So, to reduce poverty means to reduce vulnerability in these areas by providing the safety nets to the poor.

### **4.3 Summing Up**

To conclude, poverty can be alleviated if the expenditures of the government are streamlined effectively. The major attacking points while designing the expenditure plan are infrastructure development, providing basic services to the people, development of institutions, empowerment of the people and providing security from vulnerability. Development of transportation sector, basically road, can be the major infrastructure which helps in poverty reduction followed by agriculture research and dissemination, electricity, irrigation etc. Within service sector, education has major importance followed by health, agriculture and financial services. A government, if it wants to reduce poverty in practice, should concentrate on the development of these intervening variables or linkage factors.

## Chapter V

### Local Governance and Poverty Alleviation

#### 5.1 Background

There are three functions of the government – allocation, redistribution and stabilization. It is argued that the CG should have responsibility of stabilization and redistribution functions. In case of allocation functions, national public goods which has spillover characteristic is vested in CG. In line with the principle of subsidiarity, LGs should be in charge of providing local public goods. Decentralized government can intervene in PR through this function that is devolved to the lower governments. Basically, decentralization can help in PR through development of local strength in expenditures and revenues.

Decentralization can help by other ways also to reduce poverty. They may be creating welfare gains by bringing government nearer to the people (Oates, 1999) or empowering the people (WB, 2001) or helping in economic development or any other else. Due to this reason, some 95% of democracies now have elected sub-national governments and are devolving political, fiscal and administrative powers to sub-national tiers of government (Boex et.al, 2005).

Decentralization and PA, both concepts concern themselves with empowerment – decentralization deals with empowering citizens through their LGs and PR concerns itself with empowering a group of these citizens : the poor (Boex et al, 2005).

As already discussed, the points where there can be linkages between decentralization and PR are lessening vulnerability (food security, natural calamities, illness), increasing infrastructure (road, irrigation, electricity), income generation program (micro-credit, natural resource management), basic services (Education, health, agriculture services), empowerment (women, dalits, janajatis and marginalized people) and governance (capacity building, information flow, expenditure tracking, auditing). Decentralization Theorem applies to PR policies through delivery of basic social or economic services and basic infrastructure, e.g. primary education, primary health care, drinking water, sanitation, feeder roads, electricity, or business support services. Decentralization can help in expanding the ownership and control of the poor over productive assets, enhancing their access to knowledge based society, strengthening the capacity of the poor to compete in the market place, restructuring monetary policy to deliver credit and provide savings instruments to the poor, designing institutions for the poor and empowering the poor (Sobhan, 2005).

There are lots of studies – both theoretical and empirical- testing the impact of decentralization on PR. Majority of these studies have shown that the decentralization can be an effective tool to reduce the poverty. One study in this respect says that higher levels of local spending are associated with higher growth rates in per capita income (Deller and Lledo, 2002). In other study, strong positive correlation is found between decentralization and human development (Habibi et al., 2001). It is also found that rural decentralization can reduce the poverty and inequality (Donnelly-Roark et al., 2001). Decentralization creates welfare gain by capacity improving and providing safety nets (Oates, 1999), decentralizing the delivery system promotes cost-effectiveness and improves intra-regional targeting at low program scales (Brixiova, Zuzana, Gemayel, and Said, 2003), decentralizing the delivery system promotes cost-effectiveness and improves intra-regional targeting at low program

scales (Bardhan and Mookharji, 1999) and it creates good responsiveness to poor needs (Altman and Lalander, 2003). Another study says effect of decentralization depend on country specific position (Braun and Crote, 2000) especially when the centre is strong. The following presentation shows this finding :

This, comparing the impact of decentralization on PR in different countries shows following results:

<b>Country/States</b>	<b>Impact on Poverty Reduction</b>
West Bengal	Good
Karnataka	Neutral
Colombia	Fairly good
Brazil	Good on equity but poor on spatial equity
Chile	Mixed
Bangladesh	Very poor,
Ghana	Small impact,
Kenya	Small impact
Nigeria	Poor
Mexico	Small impact,

All the above discussion shows that decentralization has impact on PR both in developed and developing countries. Basically, it serves in providing basic services provided to the people. But the impact is good whenever the upper level government is strong.

## **5.2 Importance of Decentralization on PR in Nepal**

Supporting the theory, Clause 189 of the Self Governance Act, 1999 has specified PR as one of the function of LBs. The provision in the Act has mentioned certain provisions related to PR directly or indirectly. These provisions are inclusion of women, indigenous people, untouchables, and ethnic groups while forming the body, participatory method of plan formulation, prioritization of projects as per the projects' possible contribution to PR, provision of making budget considering the reduction of poverty, preparation of poverty mapping in the district, preparing data base useful to PR, development of village-urban partnership for social mobilization, providing basic and primary education, health and sanitation facility, people's education program and protection and development of street children, rehabilitation of vulnerable people and programs related to abolition of child labor.

Different studies related to Nepalese economy have shown importance of decentralization in Nepalese economy. Out of these studies, WB has emphasized on making the public expenditure effective for the purpose of PR. For making public expenditure effective, it focus of effectively using MTEF, making program budgets on the basis of MTEF, regularly tracking the expenditures and development outcomes and to leverage private provision of services and infrastructure investment (WB, 2005). HDR (2004) wants to attain pro-poor growth and for this purpose it wants to have fusion between pro-poor macro policies and strong micro-macro linkages. Effective decentralization is taken as the mean to achieve this goal. The report has suggested the need of deepening democracy, removing discriminatory laws and practices, making macroeconomic policy pro-poor, transforming agriculture, expanding equitable education and health facilities, building infrastructure, creating employment opportunities, empowering the disadvantaged and marginalized groups and investing in the organizational capacity of the poor (UNDP, 2004 : 85-94). To achieve the

goals, the report emphasizes on full decentralization. HDR 1998 also has emphasized on restructuring of the government expenditure with the objective of specifying the human development area (1998: 133). It has emphasized on increasing the budget on the education, health, local development etc. Nepal Public Expenditure Review has felt that if the GoN wants to improve governance in Nepal, it should devolve the maximum possible amount of responsibilities to the LBs and CG should assist to the LBs in technical aspect, supervision and monitoring (WB, 2000: 23). Decentralization Review Team (2057) explores suggestions to improve decentralized governance in Nepal showing clear division of LBs works and costs associated with the work, increase in amount allocated to LBs in national budget, increase in the resources allocated to poor and destitute districts and capacity building related to management, auditing and income raising of LBs.

### **5.3 Summing Up**

At last, it can be concluded from the above discussion that local bodies can be beneficial to reduce poverty in a country. However, the central government should recognize their role in poverty reduction. In Nepal, particularly by TP, it has been done. Different research studies in Nepal also has supported this view.

## Chapter VI

### Nepalese Local Governance Expenditures in the Context of Poverty Alleviation

#### 6.1 Responsibilities of the LBs: As Per Law

Local Self-Governance Act, 1999 has given certain responsibilities to all the three LGs - the village level, municipal level and the district level. DDCs have 16 categories of expenditure responsibilities, while the VDCs and Municipalities have 11 categories of responsibilities each (Shrestha, 2002: 9). These responsibilities cover almost all the 'public services'. The responsibilities given to DDCs include district level health services, protection and promotion of natural beauties, settlement and market development in rural areas, social welfare activities related to women, child, disabled, preparing district database, working against natural calamities etc. The village bodies according to the act have the duty of managing village health services, development and protection of tourist areas, pollution control, criteria development for housing, rest house, public toilet, garden, park, roads, sewage and drainage, land utilization development of village data base development, human resource development, promotion of employment, vital registration etc. The detailed analysis of expenditure responsibilities of different levels of government is made by Ligal (2004). As per the study, some responsibilities are given to CGs, some are given to local governments, some are given to central level but transferred to local bodies and some are given to local bodies but are transferred to CG.

While talking about the responsibilities given to local bodies, we have to compare the Nepalese standard with the practice in other countries. If this side is considered, Nepalese decentralization is unsuccessful because, the responsibilities given to local bodies are insufficient. In India, 74<sup>th</sup> amendment of the constitution has specified certain powers devolved to the lower levels. But in Nepal, constitution does not say anything about the function of the LBs. That is why only a limited number of functions are given to LBs by the CG. In international context, average sub-national government expenditure shares are 34 percent in developed countries and 15 percent in underdeveloped countries. But in Nepal, it is only about 6 percent. Though the works related to fire, refuse collection, local roads etc. are given to municipalities; health clinics, primary and secondary education etc. still lie with CG. The main reasons of not devolving the expenditure responsibilities are line ministries which do not want to curtail their power. So it is clear that there is no meaning of issuing revenue power without giving sufficient responsibilities since it is very difficult to raise revenue without showing the work of the LBs. There is still the overlapping of responsibility among central and local government.

Some years ago, GoN made policy towards decentralizing the responsibilities of the government. Under this scheme, schools, sub-health posts, agriculture services like publicity of agriculture and live stock are to transferred to LBs. Till today, 724 schools, 960 sub-health posts, agriculture and livestock communication services of all the 75 districts are transferred to LBs. Besides this, LBs especially, VDCs are performing the duties related to rural roads, small irrigation projects, drinking water, school teacher management, distribution of senior citizen allowance, preparation of voter list, programs under national campaign.

## 6.2 Comparison of Local Expenditure Pattern in Different Countries

As already stated, modern world is the world of globalization and localization. Especially, in localization, the local governments are strengthened with devolution of responsibilities. With the increase in devolution trend, the expenditures made by local bodies are also increased substantially. For example, as presented in Table 6.1, the share of sub-national expenditures in comparison to total budget is up to 53.85 percent in China. At least, it is 8.4 percent in Thailand. In comparison to GDP, it is up to 12.11 percent in Magnolia with minimum of 1.87 percent of the total GDP. The total local expenditures of central level is around 5.8 percent of total expenditures and 1.06 percent of GDP. If we see the region-wise sub-national share of expenditures as shown in Table 6.2, we find 18 percent in Sub-Saharan Africa, 21 percent in East Asia and the Pacific, 22 percent in Latin America and Caribbean, 28 percent in Europe and Central Asia and 33 percent in OECD countries. But in Nepal, the central amount allocated for local development is only 5.8 percent of total expenditure as presented above. In terms of GDP, it is 1.06 percent. All these mean that sub-national governments in Nepal are not as much strong as in other countries of the world.

**Table 6.1 : Pattern of Local Governance Expenditures in Different Countries (In Percentage)**

Country	LG Expenditure as percent of total budget	Year	Expenditure as percentage of GDP	Year
Indonesia	10.08	1998	2.0	1998
Malaysia	19.14	1998	5.06	1998
Mangolia	32.16	1997	12.11	1997
Philippines	8.7	1999	1.87	1999
China	53.85	1992	10.68	1992
Thailand	8.4	1998	2.06	1998
Nepal	5.8	2003/04	1.06	2003/04

Source : Collected from various sources.

**Table 6.2: Sub-national Share of Expenditures in Different Regions**

Region	Sub-National Share of Expenditures % of Total
Sub-Saharan Africa	18
East Asia and The Pacific	21
Latin America and the Caribbean	22
Europe and Central Asia	28
OECD	33
Nepal	5.8

Source : Boex et.al (2005), *Fighting Poverty thorough Fiscal Decentralization*, USAID.

## 6.3 Patterns of Local Expenditure in Central Budget

For the purpose of analyzing the pattern of local government expenditure, first of all, we have to see the pattern of central level expenditure and share of local expenditure in total budget. For analysis purpose, the expenditure can be divided into two parts – recurrent and capital. The capital expenditure should include all types of expenditures under infrastructure, basic services, empowerment, institution reform and security from vulnerability analysis.

If we analyze the expenditure pattern of the GoN on this basis, it is seen that the capital (Development) expenditure is decreasing each year. Previously, development expenditures used to take two-third share of the total expenditure where as right now, it has been decreased to one-third. In 2003/04, it is even decreased to 38 % of the total expenditures (Table 6.3). Out of the total budget, the expenditures allocated to local development is around 6 percent. Out of the total budget expenditures, up to 1.9 percent is recurrent and around 5-6 percent is capital. The analysis of the share of total local expenditure in comparison to total budget shows that CG has allocated only a small amount of money to the local level.

**Table 6.3 : Trend of CG Expenditures for Local Development (In Percentage)**

Years	Total Budget	Recurrent Exp.	Cap. Exp.	Total Local Exp.	Local Devt. Exp.(Rec.)	Local Devt. Exp (Capital)
1998/99	100	53.6	46.4	6.7	1.3	5.4
1999/00	100	53.7	46.3	6.7	1.2	5.6
2000/01	100	57.48	42.6	6.3	1.6	4.7
2001/02	100	61	39	5.2	0.4	4.8
2002/03	100	62.0	38.0	6.3	1.5	4.8
2003/04	100	62.1	37.9	5.8	1.9	4.0

Source : GoN/MoF, Economic Survey, Different Years.

As already discussed, infrastructure building has a great significance in PR. It is the major area which contributes highest in growth and PR. It is therefore necessary to analyze the total expenditure of central level and local level in infrastructure while analyzing the expenditure of local level in the context of alleviating poverty. Table 6.4 depicts this analysis comparing the capital expenditure in comparison to total budget, capital expenditure from DDC and VDC and local capital expenditure in comparison to total budget and total central capital expenditure. The capital expenditure includes expenditure on infrastructure, basic services, empowerment, institutional reform and security from vulnerable situation. The table shows that local capital expenditures is 5.2 to 5.8 percent of the total budget. Accordingly, the local capital expenditure is around 17.4 percent of the total capital expenditure of the centre. It means, capital expenditure from the local level is very much small in comparison to needs to alleviate poverty.

**Table 6.4: Status of Capital Expenditure of LBs**

	2001/02	2002/03
Total central budget of the country (In million Rs.)	73637.3	74446.6
Capital expenditure of the central budget (In million Rs.)	24773.4	22356.1
Local capital exp from the central budget (In million Rs.)	4175.7	5296.2
Capital exp. from DDC (In million Rs.)	1822.6	1565.3
Capital exp. from VDC (In million Rs.)	2459.6	2313.8
Total capital expenditure from DDC + VDC (In million Rs.)	4282.2	3879.1
Local capital exp. % of Total budget	5.8	5.2
Local capital exp. % of central capital expenditure	17.3	17.4

Source: Secretariat of the LBFC (2004), Analysis of the Fiscal Position of DDC and VDC, GoN/MOF, Economic Survey, Different Years.

## 6.4 Pattern of Expenditure in Local Bodies

We have already discussed that there are five main intervening expenditure variables related to alleviation of poverty consisting – infrastructure, basic services, institutional reform, empowerment and security from vulnerable situation. Unfortunately, local bodies have not the data base classifying prepared on these bases. Neither, there is any study made on these ground. One year ago, LBFC has made one study relating to the income and expenditure of DDCs and VDCs which has classified the total expenditure into two categories - administration and program. Now, it is assumed that the expenditure under the heading program covers all the expenditures made under 5 heads discussed above. Below are shown the picture of DDC and VDC expenditure on program related activities in different regions.

### 6.4.1 Pattern of Expenditures in DDCs

#### a. Administration and Program Expenses in DDCs

As presented in Table 6.5, in case of DDCs, the ratio of program expenses and administration expenses to total expenditures is around 55 percent and 45 percent. However, the trend is different in different regions, EDR being 62 % and 38 %, CDR 64 % and 36 %, WDR 53 % and 47 %, Mid WDR 44 percent and 56 percent, Far WDR 27 % and 73 % in two financial years 2001/2 and 2002/03 respectively in average. From these analyses, it is seen that in remote areas, the regular expenditure is greater than program expenditure where as just opposite is in case of relatively developed regions. The Mid and Far WDR have highest share of regular expenditure.

**Table 6.5: Administration and Program Expenditures in DDCs (In Rs. per DDC)**

	2001/02		2002/03		Combined Percentage	
	Admin	Program	Admin	Program	Admin	Program
<b>DDC</b>						
EDR	213104	394976	116592	147600	37.8	62.2
CDR	196289	210596	176168	454290	35.9	64.1
WDR	154416	200832	161680	158560	46.8	53.2
Mid-WDR	201030	133875	113310	109740	56.3	43.7
Far WDR	88101	29367	91701	35649	73.4	26.6
<b>Total</b>	<b>852940</b>	<b>969646</b>	<b>659451</b>	<b>905839</b>	<b>44.6</b>	<b>55.4</b>

Source: Secretariat of the LBFC (2004), *Analysis of the Fiscal Position of DDC and VDC*.

#### b. Income Sources and Expenditure Pattern

The sources of Income of DDCs can basically be divided into two parts: grant and internal source. The grant amount includes both the administration grant and program grant. Basically, the grant is given for administration activities. The local bodies also have some sources of income both in case of DDCs and VDCs. The expenditures are made from both of these sources. Table 6.6 shows the analysis of expenditure in the fiscal year 2002/03 made from these sources. As per the table, in case of DDCs, that the grant amount is mostly spent on administration where as internal source revenue is spent in program activity. In aggregate, grant amount is divided into two parts – 58 percent in administration and 42 percent in program. In contrast to this, 25 percent of internal source revenue is spent on administration and 75 percent of the same is spent on project activities. In total, 42 percent is spent on administration and 58 percent is spent on program. This indicates that the program expenditure is higher than the administration expenses from the revenue raised by themselves.

**Table 6.6: Pattern of DDC Income and Expenditures in the Year 2002/2003 (In Percentage per DDC)**

DDC	From Grant			From Internal Source			Total of Admin. and Prog.		Grand Total
	Admin.	Prog.	Total	Admin.	Prog.	Total	Admin.	Prog.	
EDR	65.0	35.0	100	23.8	76.2	100	44.1	55.9	100
CDR	38.2	61.8	100	18.6	81.4	100	27.6	72.4	100
WDR	77.5	22.5	100	28.6	71.4	100	50.5	49.5	100
Mid-WDR	63.1	36.9	100	30.6	69.4	100	50.8	49.2	100
Far WDR	71.3	28.7	100	79.3	20.7	100	72.0	28.0	100
<b>Average</b>	<b>58.3</b>	<b>41.7</b>	<b>100</b>	<b>24.5</b>	<b>75.5</b>	<b>100</b>	<b>42.1</b>	<b>57.9</b>	<b>100</b>

Source: Secretariat of the LBFC (2004), *Analysis of the Fiscal Position of DDC and VDC*.

One thing to be noted that the administration expenditure of DDCs include the salary of VDC secretary's also. This expenditure included in administration has misguided from two sides, first, by causing to swell the administration expenses of DDCs in comparison to program expenses and second, by increasing DDC expenditure and reducing VDC expenditure than the actual one.

### **c. Capital Expenditure Pattern**

As already said, there are five categories of expenditures which help in reducing the poverty consisting – infrastructure, services, empowerment, institutional reform and security from risks. We have to relate the DDC expenditures with these variables if we have to see how far are the DDC expenditures friendly to reduce poverty. Due to data problem, as mentioned earlier, it has not been able to present systematically. But, we have some data from LBFC of 18 districts collected for the purpose of research related to income and expenditure. The data had classified the expenditures into 10 different heads but with the purpose of making the analysis compatible with our indicator of expenditures, we have reorganized them into five – 4 under capital expenditure and one under recurrent expenditure. Here, these data, though, can not present whole picture of DDC expenditures in the context of PA, but helps to understand the trend. Table 6.7 presents these figures which have classified the capital expenditure under four heads – service, infrastructure, empowerment and miscellaneous - and general expenditure into one head, i.e., administration. Miscellaneous head covers all the expenditures other than service, infrastructure and empowerment and miscellaneous. The observation of Table 6.8 shows that the expenditures - under services head from 0 percent in many districts to 2.3 percent in Ilam and in aggregate 0.6 percent, under infrastructure head from 4 percent in Kathmandu to 20.6 percent in Myagdi and in aggregate 8.7 percent, under empowerment head 0 percent in many districts to 0.5 percent in Bhojpur and in aggregate 0.1 percent and under miscellaneous head 2.2 percent in Ilam to 36 percent in Kathmandu and in aggregate 12.3 percent. Average aggregate total capital expenditures of all the 18 districts is 21.7 percent. Remaining part of the expenditure goes in administration including the program. As shown in the table, capital expenditure is very small in comparison to administration expenditures.

**Table 6.7: Capital Expenditure Pattern of DDCs (In Percentage)**

Districts	Services	Infra.	Emp.	Misc	Total Devt Exp.	Admn.	Total
Ilam	2.3	11.6	0.2	18.1	32.2	67.8	100.0
Bhojpur	0.6	5.4	0.5	2.2	8.7	91.3	100.0
Sunsari	1.4	12.2	0.4	14.4	28.4	71.6	100.0
Saptari	0.0	1.9	0.0	4.4	6.3	93.7	100.0
Siraha	0.0	5.5	0.0	3.3	8.8	91.2	100.0
Rautahat	0.0	4.7	0.0	15.5	20.2	79.8	100.0
Kathmandu	0.4	4.0	0.0	36.5	41.0	59.0	100.0
Tanahu	0.4	17.4	0.0	15.3	33.1	66.9	100.0
Kaski	0.0	9.7	0.0	11.5	21.2	78.8	100.0
Nawalparasi	0.0	5.4	0.0	16.8	22.2	77.8	100.0
Palpa	0.9	10.4	0.0	7.4	18.7	81.3	100.0
Myagdi	0.6	20.6	0.0	2.1	23.2	76.8	100.0
Dolpa	0.0	9.8	0.0	18.9	28.7	71.3	100.0
Humla	0.0	9.5	0.0	13.7	23.1	76.9	100.0
Jumla	0.0	4.4	0.0	8.6	13.0	87.0	100.0
Kalikot	0.8	4.8	0.0	5.6	11.2	88.8	100.0
Mugu	2.7	5.9	0.1	19.0	27.7	72.3	100.0
Jajarkot	1.5	14.3	0.0	7.8	23.6	76.4	100.0
Average	0.6	8.7	0.1	12.3	21.7	78.3	100.0

Source : LBFC data base

Table 6.8 shows the amount and pattern of expenditures prepared from the periodic plan of 12 districts. As above, in these cases too, the budget classification of different districts is not scientific. Different districts have different categories of expenditure. But for this analysis purpose we have reorganized their program expenditure under 6 heads comprising social services, economic services, infrastructure, institutional development, empowerment and social security. From the table, we can find that the projected expenditures of DDCs mainly concentrates on infrastructure building. It covers around 37 percent of the total expenditure. The other expenditures in order of priority cover social service 35 percent, economic services 21 percent, empowering 5 percent and institutional development 2 percent. The amount allocated for institutional reform and social security are insignificant.

**Table 6.8: Forecasted Pattern of DDC Expenditure (In thousand Rs.)**

District	Social Services	Economic Services	Infrast.	Institutional Devt.	Empower.	Social Security	Total
Ilam	3482044	519187	1059974	429401	119019		5609625
Bhojpur	775481	660829	403407	133499	50530	4066	2027812
Sunsari	2403774	1683934	3306125	27358	2245496		9666687
Siraha	777915	2370575	3397376	32118	97453		6675437
Tanahun	1824229	471689	1389401	110550	0		3795869
Kaski	2455563	3541650	6006628	0	0		12003841
Nawalparasi	1792915	483366	822573	8850	0		3107704
Palpa	1633689	449022	632658	127151	48098		2890618
Dolpa	697935	109520	1345066	103988	0		2256509
Jumla	950755	684271	110431	16943	5051	3450	1770901
Jajarkot	1036591	25125	499697	4285	0		1565698
Total	17830891	10999168	18973336	994143	2565647	7516	51370701

Source: Periodic Plan of Different Districts, Ministry Local Development, Lalitpur

**Table 6.9: Forecasted Pattern of Expenditures in DDCs (in Percentage)**

District	Social Services	Economic Services	Infrast.	Inst. Devt.	Empower.	Social security	Total
Ilam	62.1	9.3	18.9	7.7	2.1	0.0	100
Bhojpur	38.2	32.6	19.9	6.6	2.5	0.2	100
Sunsari	24.9	17.4	34.2	0.3	23.2	0.0	100
Siraha	11.7	35.5	50.9	0.5	1.5	0.0	100
Tanahun	48.1	12.4	36.6	2.9	0.0	0.0	100
Kaski	20.5	29.5	50.0	0.0	0.0	0.0	100
Nawalparasi	57.7	15.6	26.5	0.3	0.0	0.0	100
Palpa	56.5	15.5	21.9	4.4	1.7	0.0	100
Dolpa	30.9	4.9	59.6	4.6	0.0	0.0	100
Jumla	53.7	38.6	6.2	1.0	0.3	0.2	100
Jajarkot	66.2	1.6	31.9	0.3	0.0	0.0	100
Average	34.7	21.4	36.9	1.9	5.0	0.0	100

Source : Source: Periodic Plan of Different Districts, Ministry Local Development, Lalitpur

It is seen from the analysis of regular and forecasted expenditure as presented above that in case of regular expenditure the administration is higher than the capital expenditure. In contrast to this, capital expenditure is greater than recurrent expenditure in case of forecasted amount of expenditure. The major reasons behind that may be either lack of elected representatives that concentrate on capital expenditure or lack of focus in capital expenditure in day to day implementation.

#### **d. Devolved Service Expenditures in DDCs**

As is already mentioned that certain government expenditure responsibilities are devolved in lower level by the central government. These expenditures include agriculture, livestock, education and health. In Table 6.10 the study has tried to analyze the pattern of these expenditures also. From the analysis, it is seen that within these four sectors of devolved responsibilities, agriculture and live stock expenditures are very few covering only 5 percent and 3 percent of the total expenditures. Health sector expenditure is around 14 percent. The highest amount of devolved expenditure is concerned with education which is around 78 percent. This table communicates two things. First, the government has not in real practice devolved the responsibilities to the local level. Second, education sector devolution is possible in comparison to other sectors.

**Table 6.10 Devolved Expenditure of DDCs (In Rs.)**

Fiscal Year	Agriculture	Livestock	Education	Health	Total
1999/00	408323	263496.0	6329011.0	1352464.0	8353294.0
2000/01	638541.0	412568.0	8098738.0	1326524.0	10476371.0
2001/02	632036.0	368806.0	9678681.0	1639487.0	12319010.0
2002/03	606935.0	366216.0	10319770.0	1834421.0	13127342.0
Total	2285835.0	1411086.0	34426200.0	6152896.0	44276017.0
Average	571458.75	352771.5	8606550	1538224	11069004.25

<b>In Percentage</b>					
<b>Fiscal Year</b>	<b>Agriculture</b>	<b>Livestock</b>	<b>Education</b>	<b>Health</b>	<b>Total</b>
1999/00	4.9	3.2	75.8	16.2	100.0
2000/01	6.1	3.9	77.3	12.7	100.0
2001/02	5.1	3.0	78.6	13.3	100.0
2002/03	4.6	2.8	78.6	14.0	100.0
Annual Average	5.2	3.2	77.8	13.9	100.0

Source : ADDCN (2061), *Brief Analytical Report of the Income and Expenditure of DDCs*, Kathmandu.

The experts view in this relation is that the government is devolving the expenditure of recurrent nature to local bodies like salary of teacher, but not the capital expenditure as required. Capital expenditure is still made by line agencies.

#### 6.4.2 Pattern of Expenditures in VDC

##### a. Administration and Program Expenditures

In case of VDCs also, there is no availability of data as per our requirement. However, LBFCs data from sample districts aggregated for the whole Nepal to find out the trend of VDC level expenditures and incomes has been useful in this respect. Table 6.11 shows the average per VDC expenditures in different regions of the country. According to the table, the average amount of expenditure per VDC are Rs. 509010 in EDR, Rs. 893255 in CDR, Rs. 553615 in WDR, Rs. 257313 in Mid WDR and Rs. 173499 in Far WDR. It means, CDR has per VDC highest amount of expenditure followed by WDR, EDR and Mid WDR. Far WDR has lowest amount of expenditure in comparison to other regions. From this so small amount of money spent by the VDCs especially in Far WDR, the expenditure on development related work is impossible.

**Table 6.11 Program and Administration Expenses in VDCs (In Rs. per VDC)**

VDC	2001/02		2002/03		Average		Total (Admin. +Program)
	Admin.	Program	Admin.	Program	Admin.	Program	
EDR	235752	308978	195567	277723	215659.5	293350.5	509010
CDR	340516	549142	521565	375287	431040.5	462214.5	893255
WDR	175189	411651	176052	344337	175620.5	377994	553615
Mid WDR	122475	140875	143750	107525	133112.5	124200	257313
Far WDR	91154	83877	81962	90005	86558	86941	173499
<b>Average per VDC</b>	<b>193017.2</b>	<b>298904.6</b>	<b>223779.2</b>	<b>238975.4</b>	<b>208398.2</b>	<b>268940</b>	<b>477338.2</b>

Source: Secretariat of the LBFC (2004), *Analysis of the Fiscal Position of DDC and VDC*.

**Table 6.12 Program and Administration Expenses in VDCs (In Percentage)**

VDC	2001/02		2002/03		Average	
	Admin.	Program	Admin.	Program	Admin.	Program
EDR	43.3	56.7	41.3	58.7	42.4	57.6
CDR	38.3	61.7	58.2	41.8	48.3	51.7
WDR	29.9	70.1	33.8	66.2	31.7	68.3
Mid WDR	46.5	53.5	57.2	42.8	51.7	48.3
Far WDR	52.1	47.9	47.7	52.3	49.9	50.1
<b>Average Per VDC</b>	<b>42.0</b>	<b>58.0</b>	<b>47.6</b>	<b>52.4</b>	<b>44.8</b>	<b>55.2</b>

Source: Secretariat of the LBFC (2004), *Analysis of the Fiscal Position of DDC and VDC*.

As regards to the composition of administration and program expenditure, Table 6.12 shows that around 45 percent is spent on administration and 55 percent is spent on program. The administration expenses in average is greater in Mid and Far WDR in comparison to EDR, CDR and WDR.

**b. Expenditure from Grant and Internal Source**

If we compare the expenses with revenue source, it is seen from Table 6.13 that 45 percent of grant amount is spent on administration and 55 percent is spent on program. Out of the total internal source revenue of VDCs, 69 percent is spent on administration and 31 percent is spent on program in aggregate. The total VDC income is divided into 49: 51 percent ratio between administration and program expenses.

**Table 6.13 : Pattern of VDC Expenses in Comparison to Income (F.Y. 2002/03 in Percentage)**

VDC	From Grant			From Internal Source			Total of Admin. and Prog.		
	Adm.	Prog.	Total	Adm.	Prog.	Total	Adm.	Prog.	Total
EDR	28.6	71.4	100	73.8	26.2	100	41.3	58.7	100
CDR	56.9	43.1	100	67.4	32.6	100	58.2	41.8	100
WDR	21.3	78.7	100	62.7	37.3	100	35.1	64.9	100
Mid-WDR	65.0	35.0	100	100.0	0.0	100	65.1	34.9	100
Far WDR	36.0	64.0	100	88.9	11.1	100	47.7	52.3	100
<b>Total</b>	<b>43.6</b>	<b>56.4</b>	<b>100</b>	<b>69.2</b>	<b>30.8</b>	<b>100</b>	<b>48.8</b>	<b>51.2</b>	<b>100</b>

Source: Secretariat of the LBFC (2004), *Analysis of the Fiscal Position of DDC and VDC*.

**c. Expenditure pattern in some VDCs in Kathmandu**

As already expressed, due to lack of complete data, it is impossible in Nepal to analyze the expenditure of VDCs in detail. However, the trend of VDC expenditures in the context of PR is analyzed on the basis of expenditures of some villages in Kathmandu District as case study. For this purpose, expenditures of 6 VDCs in Kathmandu for the Fiscal Year 2061/62 was collected and analyzed (Table 6.14 and Table 6.15). Out of the 6 VDCs, 3 were richest one and 3 were poorest one. The incomes, own source income, heads of expenditure in accounts, total expenditures, total program expenditures, total expenditures on infrastructure, service, empowerment, institutional reform, social security were analyzed to evaluate their pro-poorness. From the study, it is seen that different VDCs in Kathmandu district have different financial capability. Some are very rich and others are very poor. The heads of expenditure of different VDCs vary 6 to 20 irrespective of the income. There is no standard classification of expenditures. Total program expenditures too vary from around 44 percent to 90 percent depending on the income based on its own source. The VDCs which have higher income has spent more on program expenditures and Vice Varsa. Other expenditures like service, empowerment etc. also varies on the basis of income. But, social security expenditure has the different case having more or less equal to each other in all the VDCs. If we see the composition of expenditures, it is seen that richest VDCs have invested more on infrastructure and service sector. Infrastructure investment is heaviest and empowerment expenses are lowest in most of the VDCs. There is expenditure on institutional reform in neither of the VDCs. It should be stated here that neither the expenditures in village level are incurred with a view of PR nor the expenditure classification comply with that purpose.

**Table 6.14 : Pattern of Expenses in Certain VDCs in Kathmandu District (In Rs.)**

Name of VDCs	Ichangu narayan	Gongabu	Jorpati	Nanglebhare	Chhaimale	Indrayani
Total incomes	4086417.22	8030642	8048733	798878.5	739756.61	924242.94
Own source revenue	3076267.22	5212713	7257233	8628.5	31987.61	205447.69
Expenditure heads	20	11	9	6	9	20
Total expenditures	4556824.08	7657789	5207793	484347.28	672887.17	808818.94
Total program expenditures	3795178	6876885	4451552	361977	294210	498770
Total infrastructure exp.	3317165	5107069	3932394	199327	75110	259320
Services	154335	567500	67758.58	13050	0	25050
Empowerment	23428	487500	0	0	0	0
Institutional reform	0	0	0	0	0	0
Social security	300250	714816	451400	149600	219100	214400

Source : Different VDCs in Kathmandu District.

**Table 6.15 Pattern of Expenses in Certain VDCs in Kathmandu District in Percentage**

Name of VDCs	Ichangu narayan	Gongabu	Jorpati	Nanglebhare	Chhaimale	Indrayani
Total incomes	100	100	100	100	100	100
Own source revenue	75.3	64.9	90.2	1.1	4.3	22.2
Expenditure heads (in Number)	20	11	9	6	9	20
Total expenditures	100	100	100	100	100	100
Total program expenditures	83.3	89.8	85.5	74.7	43.7	61.7
Total infrastructure exp.	72.8	66.7	75.5	41.2	11.2	32.1
Service exp.	3.4	7.4	1.3	2.7	0.0	3.1
Empowerment exp.	0.5	6.4	0.0	0.0	0.0	0.0
Institutional reform exp.	0.0	0.0	0.0	0.0	0.0	0.0
Social security	6.6	9.3	8.7	30.9	32.6	26.5

Source : Different VDCs in Kathmandu District.

## **6.5 Status of Good Governance in Local Bodies**

"Good governance is perhaps the single most important factor in eradicating poverty and promoting development", once Kofi Annan said. However, Nepal's governance is still under the cloud of bad governance, which the below presented discussion from the report of the Auditor General of Nepal, says. The audit of the DDCs of 75 districts Office of the Auditor General of Nepal has specified certain pattern of expenditures in LBs, especially, the DDCs in Nepal. In its final report of 2004, it has specified clearly that there is 10.33 percent irregular amount of expenditure of the total amount audited. Such irregularities include those amount which are to be recovered, lack of sufficient proof, causing loss to the LBs, advanced not cleared etc. However, these discrepancies are not evenly distributed to all the districts. The districts which have more income have more amount of irregularity. The major reasons behind these discrepancies may be either their negligence or accounting process in applicable to local level. Other types of irregularities stated in report are :

- 58 percent of the projects operated in DDCs are not completed within time. Lack of training to users group in relation to the implementation of project and accounting of the expenditures might have caused this situation, experts view in this respect.
- Projects are not implemented as per the rule even if there is clear cut provision. Especially, the projects that are to be executed under users' group are performed in otherwise way.
- No advance tax deduction on expenditures are made,
- Extra amount of employee facilities are provided without considering the budget,
- There are use of registered auditors for internal audit instead of creating internal audit section and doing the job from the same,
- No supervision and monitoring of implemented projects as per rules,
- Lack of record of past irregularities in different districts,
- More expenditure on financial assistance than the amount provided by law. The law has specified that such amount may not exceed more than 1 percent of the internal revenue or Rs. 50000 whichever is less, but the real expenditures under this head are far more than the specified limit.
- More expenditure on miscellaneous and casual expenses than the specified limit. The specified limit is Rs. 100000 or 1 percent of internal revenue whichever is less,
- More expenditures on administration than the specified limit of 25 percent of the income,
- As regards to local development fund, it is commented by Office of the Auditor General that there is no use of monitoring from the MoLD, there is execution of program without approving from district council and there is no effective utilization of fund in case of seed money for different programs. It is also shown by the report that the fund does not lend money as per the spirit of the Local Development Fund Program. Accordingly, it has not developed the basis to lend money to the poorest people. In most of the districts, the transactions from the fund are not audited regularly.

## **6.6 Some Problematic Aspects of Local Governance in the Context of PA**

Besides discussed above, there are other problems related to the expenditure pattern of LBs in the context of rural poverty alleviation. Major problems in this respect are duplication and triplication of responsibilities between LBs and CG, dual responsibility of LBs' employees, lack of resources, lack of formal delegation, lack of clarity between the roles of CG and LG, lack of coordination between CG and LG, no clarity related to human resources, egalitarian

treatment to all the LBs, unclear directives, lack of sufficient commitment of government, complex transfer system etc. (LBs Fiscal Commission and DANIDA/DASU, 2004). The discussions on some of these aspects are presented below :

### **Insufficiency of devolved responsibilities**

The Benefit Model of Local Finance says that, the basic rule of efficient expenditure assignment is to assign each function to the lowest level of government consistent with its efficient performance. The only services that should be provided centrally are those for which there are no differences in demands in different localities, where there are substantial spillovers between jurisdictions that cannot be handled in some other way (e.g., by contracting or by grant design), or for which the additional costs of local administration are sufficiently higher to outweigh its advantages. In short, leaving aside the important distributive question, almost all public services (except national defense, foreign policy, and a surprisingly few others) should be delivered at the local level, with local decision makers deciding what services are provided, to whom, and in what quantity and quality and with local taxpayers paying for the services provided (Bird, 1993).

It is said that decentralization brings decision-making closer to the people and therefore yields programs and services that better address to local needs. However, in Nepal, this has not been happened due to insufficient responsibilities given to LBs. In paper, some tasks of the state are given to LBs but in real practice, they all are vested with CG. The responsibilities related to health, education, electricity, water, telephone, drainage etc. are used by the CG. The major reason of not allowing responsibility is the lack of initiative to devolve the power to LBs. That means, the key areas are kept by the CG. The constitution of the Kingdom of Nepal does not say anything about the responsibilities and revenue sources of the LBs. Note that in India, 74<sup>th</sup> amendment of the constitution has clearly spelled out the mandatory responsibilities of the LGs. So, it would be better to devolve all the areas to local levels except those related to external affairs, security, finance and inter jurisdictional responsibilities.

In the same way, all VDCs whether it is of Mountain or Hill or Terai get same responsibilities and same revenues. This approach overlooks the reality that the LGs greatly vary in their level of development, and in their fiscal and administrative capacity. There should be matching between the responsibilities with the capacity as far as possible, and establish a system of graduation from one category to higher category within the same level of government.

There is lack of internalization of Line agencies into local government (article 257 of LSGA). Further more, devolution of four sectors is not in line with the spirit of full devolution.

### **Insufficiency of revenue**

LGs, especially, most of the VDCs have only limited sources of revenue. Though they are given lots of sources in Act, in real practice, they are more or less useless. The colorable sources of revenue are neither potential nor having capability to collect. In case of VDCs, house and land tax, land tax, haat-bazar tax, vehicle tax, entertainment tax, rent tax, advertisement tax, business tax, natural resource use tax, recommendation fee etc. are given, but to collect these revenues, neither they have manpower nor the skill. In relation to DDCs, they have the right to collect revenue from the roads they have constructed, natural resource exploitation tax, scraped goods tax etc. These sources also are not harnessed by the DDCs in

full scale. The revenue sharing provision of land revenue, electricity, forest etc. are good, but they also are not horizontally equitable.

### **Insufficiency of transfer amount and unscientific system**

The expenditure assignment is not matched with sufficient funds from the CG or local revenue raising authority. The LGs are getting only too low amount of grant to cover the too miserly devolved functions also. Even the overhead costs borne by LBs for carrying centrally assigned responsibilities are not borne by CG. VDCs get Rs 500 thousand as transfer from the centre continued for last 11 years. However, from this current year 2063/64; this amount has been increased to one million. The DDCs also get majority of their income as conditional transfer from the centre but they are not sufficient. In comparison to needs as shown by periodic plans, the revenue sources are very small. The GoN has recently designed a formula to fix the amount of transfer to the DDCs. The formula has given weightage of 50 percent to human development index, 20 percent to population, 10 percent to area and 20 percent to cost index. But in comparison to the need of the people, the resources available are very low.

For the LGs, the devolved expenditure assignment remains largely unfunded. The only funding they get is the general block grant, plus some conditional grants for road and suspension bridge construction, and the administrative grant. Although the LGs have discretion on spending the general block grant, the size is so small that its real influence in addressing the expenditure responsibilities is negligible. The system of transfer of the grant, on the other hand, is also non-transparent. Apart from planning and co-ordination function in general, the DDCs provide rural infrastructure services from general-purpose, and conditional road and suspension bridge grant (Shrestha, 2002).

It is reported that the adhoc system of transfer to local bodies (both DDC and VDC) is not equitable. For example, the grant of Rs 10 to each VDC is not scientific. There is lack of equalization grant system.

### **Economically, administratively and politically unviable unit of LBs**

LGs in Nepal, especially VDCs are so small that they are not viable in terms of economy. They cannot hire even an accountant though each VDC is spending Rs. 500 thousand given by CG. They are not raising revenue as per the law as well. Due to smallness in size in comparison to their income, there is impact on governance expenditure. The service delivery units are not sufficient and are not economically viable to establish. Efficient man power is lacking and exploitation of potential resources is impossible.

The LG should bear the responsibilities for the devolved functions; there should be hard budget constraint. However, due to weak capability, they can not follow these rules. In VDC level, the secretary has to do all the works even from executive to peon. He is accountant too. Maoist threat to VDC secretaries have caused further damage in financial transparency.

Not only economically, the LBs are administratively and politically unviable too. People with high qualification and quality do not enter in LBs as a representative. LBs are not attractive due to lower responsibility and remuneration.

### **Insufficiency of expenditure tracking**

In Nepal there is no expenditure tracking system. Due to this reason, billions and billions of rupees are misused each year. The volume of irregular amount is increasing, infrastructure

prepared are of low quality and so forth. Even the compliance audit is not made each year due to lack of mechanism. This condition is common in local bodies.

#### **Insufficiency of public hearing and public auditing**

The concept of public hearing and public auditing is not properly applied in Nepal. In Nepal, where proper accounting may be lacked, this concept may help in transparency. However, from this year, the government is considering in this respect. The budget speech of finance minister shows this indication. In recent days, ADDCN has prepared guidelines related to transparency and accountability and used in 20 districts in practice.

#### **Insufficiency of poverty mapping**

Defining the detail status of the locus of poverty is a must to conduct effective PA programs in lower level. The government should identify who are the actual poor, what are their conditions and what should be done to remove the poverty. But in Nepal, the government has not made survey on this aspect and so lacks the information and planning. However, it has derived the VDCs with the poor population on the basis of human poverty index in 32 districts. The detail household poverty mapping is prepared in those VDCs where the social mobilization program is in operation.

#### **Heavy administrative expenses**

The other problem of LBs is heavy administrative expenses. Though administrative expenses are limited to 25 % of income, the rule is not applied in real practice due to deficiency in adequate income, hiring of unnecessary employees etc. Most of the expenditures are related to administration itself.

#### **Insufficiency of private sector, civil society and local bodies' partnership**

Tenth Plan has taken both the private sector and civil societies as one of the pillars of poverty reduction. Considering this, there should be in engaging these two sectors for poverty reduction in coordination with local bodies. However, lack of sufficient development of private sector and civil society and inadequacy of vision in plan makers, there is lack of participation of both of these sectors in LBs' PR initiative.

#### **Insufficiency of borrowing right**

LBs, especially the DDC and VDC do not have adequate borrowing rights in Nepal. They cannot raise debt either from internal or external market. The lack of this right has caused under scoring resources which ultimately is affecting in capital expenditure. Local development fund under DDC provides certain loan for local development but that loan is very small in comparison to gigantic need of the society. Due to underdevelopment of capital market also, there is limitation in raising loan. There is Town Development Fund for the development of municipality area, but no such fund exists in case of VDC and DDC.

#### **Insufficiency of adequate planning and participation of the people both in VDCs and DDCs**

Community participation and boosting grass roots development plays a key role in the sustainability of programs and quality of life improvements. Lacking of sufficient planning and people's participation in these programs are also hindering the PA objective of the government. Though, certain rights related to planning are given to LBs, they are not implemented in real practice. In spite of being PR as number one agenda of the the country, there is no adequate planning for PR in local level both in VDCs and DDCs. Certain districts have prepared the periodic plan, but due to violence, adequate monitoring and lack of elected

representatives, they are not going well. There is vast gap between plan and real practice. As well, there is severe lack of participation of people in such planning. Due to this lacking, people do not take government programs as their own. Especially in case of infrastructure, the designing procedure uses to be in English language which also has caused people's deficient participation in preparation of plans. There is exists no periodic plan in VDC level on the basis of the peoples' participation.

### **Insufficient monitoring**

One of the main ingredients for the efficiency in LBs' work is the monitoring from the centre. But in Nepal, this is the most lacked aspect. The action of the oversight agencies like MoLD, Office of the Auditor General, Commission for the Investigation of Abuse of Authority etc. have more or less no role in regularizing the LBs' transparency. It is reported that MoLD has not adequate resources to make the monitoring efficient. DDCs also have not sufficient monitoring of VDC performances. A mobile team constituted in head quarter may help conduct effective monitoring of activities at the district as well as VDC levels.

### **Insufficient infrastructure and manpower capabilities**

For the purpose of effective work on PR in local bodies, there is need of adequate infrastructure and highly professionalized man power. But, there is severe lacking of both of these things in local bodies. Especially in VDCs, the secretary who is either school leaving certificate or intermediate level graduate has to do all the jobs of accountant, secretary, politician, technical person and so forth. This insufficiency of manpower as per the requirement has caused a problem in poverty reduction.

### **Full Implementation of LSGA**

There is lack of full implementation of LSGA. Accordingly, there is lack of promulgation of LSGA Article 255. This has caused lack of fully responsible staffs in the local governments. There are so many acts contradiction LSGA which should be amended for making local bodies effective. Local bodies associations and different studies have time and again suggested to amend them, however, the result is not satisfactory till today.

### **Conflict and political instability in the country**

As everyone knows, the country was in massive conflict during last 10 years. Around 15000 people sacrificed their lives during this conflict. Due to this conflict, it was impossible to implement development projects in villages. Exacerbating the situation, the autocratic regime of the King centralized all the powers in center spending mostly on defense. These two problems have aggravated the situation and reduced the expenditures of LBs on infrastructure, human development, institutional development etc.

It is said that no matter what a constitution or law says, CG agencies rarely have a desire to decentralize services they have been providing, particularly if decentralization involves a loss of prestige and resources to these agencies and they perceive each other as competitors. Thus, they almost invariably try to slow the process. Accordingly, if too many sectors are decentralized too rapidly and LGs do not have the capacity to handle these new responsibilities, they will perform poorly. If this happens, central agencies hostile to decentralization can use poor local performance as an excuse for keeping the services centralized. Nepal's position is exactly the same now. On one hand, CG especially the bureaucracy does not want to devolve power to the lower level, the situation is too much vulnerable, on the other. Up to now, it is not clear how the nation's political situation and decentralization policy will go.

**Lack of elected or any other appropriate representative body**

There is no elected body in LG for last four years. Employees of the CG are running these bodies. Though, various nominations were made, they could not function well due to their limited people support and unaccountable financial practices.

**Insufficient and incapable manpower**

For the purpose of effective decentralization, three Fs – function, fund and functionaries should be devolved to the local bodies. However in Nepal, functionaries (employees) are not transferred to local bodies though functions and funds to some extent are transferred. Once, there was talking about the transferring of a chunk of central employees to local level, but this has not been done till today. Due to this reason, there is sufficient and efficient manpower in local bodies. In short, there is lack of technocracy and bureaucracy in local bodies, especially in VDCs. Heavy exercise was done by GoN to delegate these powers but in vain.

Accordingly, the manpower in local level are not capable due to lack of training and sufficient exposure. There is lacking of sufficient technical manpower in local bodies.

**Insufficient information flow to media and data base**

One of the major lacking in local level expenditures is the insufficiency of transparency. In most of the DDCs and VDCs, the income and expenditures, audit reports and other relevant materials are not given to press and mass media. Further more, though the DDCs have created information center within their office venue, it is not functioning well in most of the districts. In most of the cases, proper manpower is also not deputed for that purpose.

**Insufficient focus on financial discipline**

Basically in DDCs, it reported that there is no cordial relationship between account person and audit person. Account person does not fully cooperate to audit person. In many cases, the pre- audit provision is not followed properly. Accordingly, there is no uniformity in accounting format and classification of expenditure heads used by different VDCs and DDCs.

As reported during study, there is no specific system and procedures for the effective implementation of LSGA/R. Due to the lack of the financial guideline, the provisions of LSGA/R have not been implemented properly. There is still confusion on formation and mobilization of consumer group, repair and maintenance, planning formulation and implementation, financial management and monitoring and evaluation. There should be formulation and implementation of the respective manuals and guidelines. ADDCN in technical support of INLOGOS has already prepared and submitted it to MoLD for approval.

There is lack of appraisal and evaluation system (LSGA Article 211) relating to different activities covering the projects implemented by local bodies.

**Insufficient data base**

LBs in Nepal have very weak data base. It is very difficult to get the data related to the incomes and expenditures of these bodies, as this researcher faced difficulty in getting data while doing this research. This situation exists even in district level also. Central data integrating system is not available in Nepal till today. Accordingly, there is no system of combining local and CG expenditures in national account. Unless and until the proper data base is not established, PA will remain a mirage.

### **Lack of due attention to Social Mobilization Fund**

Social mobilization program run by DDCs (LGP, PDDP, DLGSP, Garibsanga Bisheshor) has been reported as effective in reducing poverty. So, both the fund amount and the scope of the activities should be enhanced. However, it is not given due importance for poverty reduction.

### **Strength of local bodies associations not utilized properly**

LG Associations are legitimate and representative organization of local bodies (DDCs, Municipalities and VDCs). They are highly recognized by government. By virtue of office, the representation of LGs in DIMC, Fiscal Commission, Fund Board, Road Board, various commissions/committees formed by government and donor Project Advisory Committee proves their legitimacy and importance. In short, they have done great job in strengthening local bodies and indirectly in reducing poverty. However, the government has not properly utilized their strength in policy formulation, implementation and monitoring.

### **No use of DIMC**

As per LSGA, there is provision of DIMC to implement and monitor the activities related to decentralization. This committee is under the chairmanship of Prime Minister. However, since the formulation of the act, this committee is totally inactive. Further more, there is provision of DIMC Working Committee under the DIMC which is also made inactive in this respect.

### **Problems in other fields**

Different DDCs do not have Periodic Plan. There is no mid-term review in case of those where it is made. There is lack of proper linkage between DPP and Annual Plan and completion of 14 steps planning process. In most of the DDCs, there is lack of formation of account committee, revenue advisory committee and Position Fulfillment Committee (Pad Purti Samiti).

## **6.7 Summing Up**

Local Self-Governance Act, 1999 and its rule have given certain responsibilities to the local bodies in Nepal. However, these responsibilities are not clearly defined; some of these responsibilities are given to all the levels of government, i.e., central government, DDCs and VDCs. Though given by law, certain responsibilities are still captured by line agencies of the central government. In comparison to international standard, the responsibility assignment is not appropriate. The role of local bodies also in the context of poverty alleviation is not effective. Some of the conclusions in this relation can be put forward as follows :

- Both in comparison to central budget and international comparison, Nepal's local expenditure is very low,
- Within total budget too, capital expenditure is low in local level.
- Program expenditure is greater than administration expenditure in DDCs. But this program expenditure includes the recurrent type expenditure also.
- From central grant, administration expenditure is greater than program expenditure, where as, the opposite is the situation in case of internal revenue. Program expense is higher than administration expense in this case. It is seen that the more the internal source revenue, the higher is the program expenditure.
- In total actual expenditure, the administration exp. covers the major part. In contrast, in planned expenditure, the capital part takes major place.

- Within forecasted capital expenditure, infrastructure covers major portion and within capital expenditure too, road construction covers major part.
- Within devolved expenditures, education has the major place covering more than  $\frac{3}{4}$ .
- There is no uniformity in expenditure heads of local bodies, especially, the VDCs.
- The higher the internal source of revenue, the higher is the infrastructure expenditure leaving almost negligible amount to service providing, empowerment, institutional reform and social security.
- There are lots of works to do in local level to make the financial practice transparent.

Besides above, the local bodies do not have appropriate data base, their expenditures are not appropriately directed to poverty reduction, they have lacking of good governance and so forth. Their heavy administrative expenditure is one of the major hindrances in directing to attacking poverty. Vulnerable situation of the country and local bodies, lack of elected representatives, lack of capable manpower and infrastructure, lack of adequate planning and participation of people, lack of borrowing right, lack of private sector partnership, lack of poverty mapping, lack of expenditure tracking, economically unviable unit, lack of adequate transfer from the center, lack of adequate source of revenue etc. may be other reasons in this respect. In conclusion, the pattern of local governance till today has not been PA friendly. Lots of improvements are needed if the spirit of the TP, donor agencies, UN and the Great Janaandolan II is to be achieved.

## Chapter VII

### Findings, Conclusions and Recommendations

#### 7.1 Background

Nepal is a developing country which lies in 136<sup>th</sup> position of UN human development ranking. Poverty in Nepal is acute covering around 31 percent of the people below poverty line, only 62 years of life expectancy and around 50 percent of adult literacy. The poverty in Nepal is concentrated especially on rural areas of mountain and hilly regions covering women, dalits, janajatis.

LG in the present world is taken as the panacea for having solutions of different problems including rural PR. Decentralization experts have expressed view that decentralization through intervention on allocation of resources can reduce poverty. Specially through providing basic services to the people, it can empower them and reduce poverty.

#### 7.2 Findings and Conclusions

##### a. Findings

In Nepal, decentralization has been exercised for many years. However, it has not been possible to reduce poverty substantially. The present study tries to analyze how far the local expenditures of the government at present is related to PR activities. The study has tried to see the poverty situation in Nepal, the government's efforts to reduce poverty, the relation between the local governance expenditure and PR and the pattern of local expenditures in the context of PA. The findings of the study are as follows :

- Nepal's poverty in comparison to developing and SAARC countries is acute in terms of income poverty, social poverty, empowerment of all the sections of the people and vulnerability. All the indicators of development - life expectancy, adult literacy, gross enrolment ratio, GDP per capita etc. are lagging behind compared to other countries.
- Nepal is making various efforts to reduce poverty for last 20 years. However, the impact of these programs in PR is minimal.
- In Nepal, poverty has decreased in certain past years. Swift increase in remittances is the major cause of PR. However, Nepal remains very poor and is unlikely to achieve key MDGs such as universal primary education, child malnutrition, maternal mortality, and access to safe drinking water. More importantly, the differences in poverty and human development indicators across different regions, ethnic groups and castes have persisted, which gives rise to social stress and conflict.
- Nepal's poverty has the characteristic of discrimination between different sections of the society. Poverty in women compared to men, in mountain regions compared to hilly and Terai regions, in Mid and Far WDR compared to other regions, in lower caste people compared to their upper caste counterpart, in rural people compared to urban one are more serious. The effects of poverty is social conflict, insecurity, constitutional deadlock, migration, engagement of people un intended activities etc.
- Ninth and Tenth Plan are mostly concentrated on PR in sustainable manner. TP has aimed to reduce poverty through high, sustainable and broad based growth; social

sector development, rural development through targeted programs and good governance. But the result is not as targeted.

- LBs may have role in reducing poverty in Nepal. They can intervene in PR activities through infrastructure building, increasing basic services to the people, helping to the CG in empowering the people, good governance, reducing vulnerability etc. Road out of infrastructure expenses has the highest rate of return among telecommunications, electricity, road etc. Within basic services, education and improvement of agriculture research and extension can have major role. Tourism, credit facilities etc. can be effective in reducing poverty.
- Nepal's local government expenditures are very small in comparison to other countries in the world. However, it can be increased even by devolving certain line ministry expenditures and employees in local bodies.
- In Nepal, central government has not devolved sufficient responsibilities to the local bodies appropriately. **Those devolved are also not in line with the spirit full devolution.**
- The revenue sources, transfer amount and loan raising power devolved to LBs are very small. There is provision of revenue sharing also which is functioning well. But it is not equitable in terms of horizontal equity. Accordingly, there is no study related to potential revenue in local level.
- LBs do not have detail poverty mapping within their jurisdiction. They have not identified the real poor household in VDCs and so the money spent for PR is not appropriately used for real poor.
- The expenditure classification of local bodies is not appropriately directed to PA. As well, there is no uniformity in expenditure classification and financial statements preparation across different districts and VDCs in Nepal.
- There is no clear cut definition of capital and recurrent expenditures. This has created problem in finding out the real value creating expenditure.
- LBs do not have adequate plans and programs concentrated on PR. It has not sufficient data base and expenditure areas concentrated on PR. This situation has created hindrance to PR.
- The local bodies, especially, VDCs are not economically, administratively and politically viable. This situation has caused relatively bad governance in the country.
- As per the Auditor General's Report, there are so many irregularities in local bodies.
- Local bodies in Nepal, especially in Mid and Far WDR are very poor. They can not afford for capital expenditure, a must for poverty alleviation.
- It is seen from the study that the higher the income of LGs, the more is spent on PA especially in case of VDCs.
- The major expenditure priority of local bodies in Nepal lies in education and infrastructure. The expenses on services, empowerment, institutional reform and vulnerability risks saving are very poor.
- The governance status of the local bodies is not efficient and transparent. This has hindered effective use of the resources. The expenditure limits on the head financial assistance, casual expenses and administrative expenses are not followed. There is large amount of irregularities in local bodies due to bad governance.
- Expenditure pattern of LBs in Nepal is not efficient in terms of distribution of resources between LBs and CG. They are not targeted to PR.
- The plans, programs and expenditures of local bodies have not focused on PR.
- The data base of local bodies is very weak. Unless and until they are improved poverty reduction would be a mirage since formulation of accurate plans and

programs are impossible. The district information and documentation centre should be made more effective in this respect.

- The position of village level bodies is weaker than the district bodies. Their expenditures are not targeted to PR.

## **b. Conclusion**

To conclude, the pattern of local government expenditure is, basically, not poverty alleviation oriented in terms of coverage, scale, design, spending method and transparency. It does not mean that present expenditure pattern is completely not related to poverty reduction. If central government wants to engage local bodies in alleviating poverty, it should be reoriented in future. If done so, local bodies can be helpful in poverty reduction. All the allocative functions should be devolved to local bodies and the expenditures should be designed considering the poverty status in the district.

## **7.3 Recommendations of the Study**

A successful PA strategy in any country should have some distinct elements. First, it is necessary to identify the poor and know what their characteristics are. Second, it is important to understand the reasons and the factors that cause poverty. Third, it is required to design a set of specific policies to improve the living conditions of the poor. Finally, the implementation of these policies should be cost efficient and the institutions established to implement them should complement the policy stance. But in Nepal, they are not as specified above.

Considering the above stated facts, following suggestion can be forwarded to reduce poverty through the efforts in local level.

- Devolve the services like education, health, agricultural services etc. as per international standard and full devolution spirit,
- Internalize of Line agencies into local governments as earliest as possible,
- Provide more autonomy and direct funding to the local bodies,
- Devolve the revenue sources and right to determine the tax rate as far as possible,
- Enhance overall human capability in the LBs. Provide appropriate manpower to VDCs.
- Develop technical manpower in LBs,
- Increase the amount of transfer to the LBs and make it scientific and equitable too,
- Make the lending procedure of LBs, especially DDCs and VDCs, easier,
- Strengthen the public auditing system as introduced in the budget of this year.
- Improve the data base of the LBs,
- Concentrate LBs' efforts on institutional reform and empowerment of the people also.
- Introduce the technique of expenditure tracking in local level,
- Increase monitoring of LGs from MoLD and other oversight agencies and provide sufficient fund for that purpose. If possible, make special mobile team. DDCs should also monitor the VDCs.
- Increase the participation of different communities like women, dalit, janajatis, madhesis and underprivileged group to empower them while formulating policies and implementing them,
- Develop uniform classification of local expenditures and make them more poverty oriented. The classification base may be infrastructure (road, electricity, irrigation, agricultural research and extension, telecommunication etc.), services (education, health, agricultural, financial etc.),

- Maximize efforts to reduce administrative expenses and increase program expenses in local level,
- Restructure local bodies to make it economically, administratively and politically viable,
- Develop poverty mapping in household level also,
- Make the vulnerable group assistance amount more transparent and use it effectively,
- Spend more on rural roads, education and agricultural research and extension,
- Implement more income generation program like micro-credit, natural resource management etc. to make people financially strong,
- Increase the amount of money given to Local Development Fund, Garibsanga Bisheswor etc. and increase its activity area. Enhance their activity area also.
- Strengthen the financial system like, budgeting, performance audit, regular dissemination of financial report to upper level government and press etc.
- Develop appropriate system to make the use of the budget sent to local bodies especially in VDCs,
- Develop conducive relationship between internal audit section and account section with due recognition to audit work.
- Make pre-audit more effective.
- Bring uniformity in expenditure head classification and accounting format used by the LBs both in VDCs and DDCs,
- Review the periodic plan of DDCs where it is made. Where it is not prepared, induce them to do so. Consider about preparing periodic in VDC level also.
- Link periodic plan with annual plan in local bodies,
- Fully implement the LSGA and develop local level manpower responsible to local governments,
- Amend all the contradicting laws against LSGA,
- Make effective use of local bodies associations like ADDCN, MUAN and NAVIN in policy formulation, implementation and monitoring of activities related to decentralization.
- Initiate the system of appraising and evaluating of projects in local level as per LSGA Article 211,
- Activate DIMC.

We know, a heavy change in Nepalese polity has occurred after the Janaandolan II. Election of constituent assembly is going to be held in near future. Before constituent assembly election, an interim constitution is going to be drafted. As one of mandates of the Aandolan, the state itself is going to be restructured. Therefore, it would be appropriate to forward some recommendations applicable to that situation also. The following points may be useful in this respect:

- Give the status of local government to lower bodies,
- Reshape the LBs to make it economically, administratively and politically viable. For this purpose, go to three tiers of government. Village level government should be more than three times larger than the present one,
- Clearly spell out in constitution in relation to LGs, its responsibilities, revenue sources etc.
- Devolve the following functions to local governments :  
Administrative organization, planning, budget, and management; creation of sources of revenues and finance; agriculture and fisheries; natural resources, energy, environment, indigenous appropriate technologies and inventions; trade, industry and tourism; labor and employment; public works, transportation, except national road,

railways and aviation; health and social welfare; education and the development of language, culture and the arts as part of the cultural heritage; science and technology; housing, land use and development and urban and rural planning and development; such other matters as may be authorized by law for the promotion of the general welfare of the people of the local territory.

The central government should retain following functions in central level:

Foreign affairs; finance, money, and coinage; trade and commerce with other countries and among local governments; customs and national revenues; citizenship and immigration; national territory; national road, railways and aviation; postal service and telecommunications; political and civil rights, human rights, and intellectual property rights; the national Supreme Court; national defense and security;

- Provide adequate sources of revenue basically natural resource source. Piggy backing system can be used in case of income tax. Devolve house rent source of tax to local bodies.
- Make the central government and MoLD effective. Local governments can not do well if the central government is weak.

## References

- ADB (2002), *PR in Nepal: Issues, Findings, and Approaches*,
- ADB Institute, IFAD, the Aga Khan Foundation and the Institute for Development Studies, India (2001), Paper presented on *Rural PR*, 29 October to 3 November.
- Agriculture Project Services Centre and John Mellor Associates (1995), *Nepal Agriculture Perspective Plan*, Kathmandu.
- Altman, D. And R. Lalander (2003), "Bolivia's Popular Participation Law: An Undemocratic Democratization Process?", in A. HADENIUS (ed.), *Decentralization and Democratic Governance: Experiences from India, Bolivia and South Africa*, Almqvist and Wiksell International, Stockholm.
- Bajracharya, Bhuban B. (2005), "Poverty in Nepal" in Madan Dahal (ed.) *Nepalese Economy: Towards Building a Strong Economic Nation-State*, Kathmandu: Central Department of Economics, T.U. and New Hira Books Enterprises.
- Bardhan, Pranab and Dilip Mookharji (1999), *Decentralizing Anti-Poverty Program Delivery in Developing Countries*, MacArthur Research Network on Inequality and Economic Performance and WB Conference on Development Economics.
- Bossuyt, Jean And Jeremy Gould (2000), *Decentralisation and PR: Elaborating the Linkages*, Policy Management Brief, European Centre for Policy Management and University of Helsinki.
- Bird, Richard M. (1993), "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization", *National Tax Journal*, Vol. 46, No. 2.
- Boex, Jameson, Eunice Heredia-Ortiz, Jorge Martinez-Vazquez, Andrey Timofeev and Guevera Yao (2005), *Fighting Poverty thorough Fiscal Decentralization*, USAID.
- Briceño-Garmendia, Cecilia, Antonio Estache, Nemat Shafik (2004), *Infrastructure Services in Developing Countries: Access, Quality, Costs and Policy Reform*, WB Policy Research Working Paper 3468.
- Brixiova, Zuzana, Edward R. Gemayel, and Mona Said (2003), "Can Fiscal Decentralization Contribute to PR? Challenges Facing a Low Income Country", *Middle Eastern and North African Economics, electronic journal*, Volume 5, *Middle East Economic Association and Loyola University Chicago*, September. <http://www.luc.edu/publications/academic/>
- Calderón, C. and Servén, L. (2005) "Trends in Infrastructure in Latin America, 1980-2001", mimeo, Washington, DC: WB.
- Crook, Richard C., Alan Sturla Sverrisson (2001), *Decentralisation and Poverty-Alleviation in Developing Countries : A Comparative Analysis or, is West Bengal Unique?*, IDS Working Paper 130, Institute of Development Studies, England.
- Dabla-Norris' Era (2006), "The Challenge of Fiscal Decentralisation in Transition Countries", *Comparative Economic Studies*, Vol.48, No.1.
- Deller, Steven C. and Victor Lledo (2002), "LG Taxing, Spending and Economic Growth: New Evidence for Wisconsin", *Working Paper Series*, AAE Staff Paper 447.
- Donnelly-Roark, Paula, Karim Ouedraogo and Xiao Ye (2001), "Can Local Institutions Reduce Poverty?", *Rural Decentralization in Burkina Faso*, *WB Working Paper Series*.

- Dethier, 2004, *Decentralisation And PR: Exploring The Linkages*, OECD, Paris.
- ESCAP (2000), *The Empowerment Of The Rural Poor Through Decentralization In PA Actions*, Economic And Social Commission For Asia And The Pacific, Bangkok.
- Fan, Shenggen, Linxiu Zhang, And Xiaobo Zhang (2000), *Growth And Poverty In Rural China: The Role Of Public Investments*, International Food Policy Research Institute, Washington, D.C., U.S.A.
- Fan, Shenggen, Somchai Jitsuchon, Nuntaporn Methakunnavut (2004), *The Importance Of Public Investment For Reducing Rural Poverty In Middle-Income Countries: The Case Of Thailand*, International Food Policy Research Institute, Washington, D.C., U.S.A.
- Fan, Shenggen, Peter Hazell, and Sukhadeo Thorat (1999), *Linkages Between Government Spending, Growth, and Poverty in Rural India*, International Food Policy Research Institute, Washington, D.C., U.S.A.
- Galasso, Emanuela and Martin Ravallion (2001), *Decentralized Targeting of an Anti-Poverty Program*, Development Research Group, WB.
- Gershberg, Alec Ian and Michael Jacobs (1998), *Decentralization and Recentralization: Lessons from the Social Sectors in Mexico and Nicaragua*, Working paper #379, Inter-American Development Bank.
- GoN, CBS (2004), *Nepal Living Standard Survey 2003/4*.
- GoN, CBS (2005), *Poverty Trends in Nepal*, CBS.
- GoN, CBS (2002), *Population Census 2001: National Report*, CBS.
- GoN, CBS (2003), *Population Monograph of Nepal, Vol. 1*, CBS.
- GoN, NPC (2005), *An Assessment of the Implementation of the TP*, Second Progress Report.
- GoN, NPC and UNDP (2005), *Nepal MDGs: Progress Report 2005*.
- GoN, NPC (2002), *TP (2002-2007)*.
- GoN, NPC (1997), *Ninth Plan (1997-2002)*.
- GoN, Ministry of Law and Parliament Affairs, *Local Self-Governance Act, 1999*.
- GoN, Ministry of Law and Parliament Affairs, *Local Self-Governance Rules, 1999*.
- GoN, MoLD (1997), Project Management Unit, *Paschim Terai Garibi Niwaran Pariyojana Aadhyan Pratiweda*.
- GoN, MoLD (2004), *Service Delivery System in Nepal: Practices and Challenges*, Paper Presented in Nepal Development Forum.
- GoN, MoLD (2004), *Decentralization in Nepal : Retrospect and Prospect*, Paper Presented in Nepal Development Forum.
- GoN, MoLD (2004), *Rural Infrastructure in Nepal*, Paper Presented in Nepal Development Forum.
- GoN, MoLD (2004), *Swoashasan*, Journal of Self-Governance and Development Vol 23-24.
- Habibi, Nadir et al (2001), *Decentralization in Argentina*, Working Paper, Yale University Economic Growth Centre.

- Kandel, Puspa Raj (2004), *Wittiya bikendrikaranko siddhanta ra Nepalko punarsanrachana* (Theory of Fiscal Decentralization and Restructuring of Nepal), Kathmandu: Sharada Kandel.
- (2005), "Fiscal Decentralization in Nepal: Some Measuring Yardsticks", *Readings on Governance and Development, Vol. V.....*
- Katsiaouni, Olympios (2003), *Decentralization and PR : Does it Work?*, Workshop on Linking Decentralized Governance and Human Development (UNDP, UNCDF, WBI and UN-DESA).
- Kauzya, John-Mary (2005), *Decentralization: Prospects for Peace, Democracy and Development*, United Nations, United Nations Department of Economic and Social Affai.
- LBFC (2004), *Review of the Tax System of DDC and VDC*, Secretariat of the LBFC, Lalitpur.
- Ligal, Prithvi Raj (2004), *Study Report on Expenditure Assignment*, LBFC, Kathmandu, Nepal.
- Mandela, Nelson (...), *Long Walk to Freedom*, p. 194 .....
- Minister for Foreign Affairs, Australia (2001), *Reducing poverty: The Central Integrating Factor of Australia's Aid Program*, Australia.
- Nepal, Govinda and Vishwo B. Amatya (2006), *Understanding Rural Energy Programme and PR Linkage : An Empirical Study of Nepal*, Energy Sector Assistance Programme, Dhobighat, Nepal.
- Oates, Wallace E. F/sea/ Federfa//sm. New York Harcourt Brace Jovanovle, 1972
- Office of the Auditor General of the Kingdom of Nepal (2004), *Mahalekha parichhakako warsik pratiwedan 2061 Annual Report Part 5*,
- Parker, David, Colin Kirkpatrick and Catarina Figueira-Theodorakopoulou (2006), *Infrastructure Regulation And PR In Developing Countries: A Review Of The Evidence and A Research Agenda*, Institute for Development Policy and Management University of Manchester and School of Management Cranfield University.
- Robalino, David A., Oscar F. Picazo and Albertus Voetberg (2001), *Does Fiscal Decentralization Improve Health Outcomes? : Evidence from a Cross-Country Analysis*, The WB.
- Sen, Amartya K. (1981), *Poverty and Famines*, New Delhi: Oxford University Press.
- Sharma, Suman Kumar (2005), "Chronic Vs Transient Poverty in Nepal: Need for Quantitative Analysis, CAMAD, Vol. 8, No.2, Issue 16.
- Shrestha, Manoj (2002), *An Overview of Intergovernmental Fiscal Relations in Nepal*, Working Paper 02-05, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, USA.
- Sobhan, Rehman (2005), *A Macro Policy for Poverty Eradication through Structural Change*, Discussion Paper No. 2005/03, World Institute for Development Economics Research (UNU-WIDER), Finland.
- Srinivasan, TN and Jessica Wallack (2003), *Federalism and Economic Reform in a Global Economy*, Preliminary draft, Yale University.

- Steiner, Susan (2005), *Decentralisation and PR: A Conceptual Framework for the Economic Impact*, German Overseas Institute (DÜI) in Hamburg.
- Stern, Nicholas (2002), *A Strategy for Development*, Washington D.C.: The WB.
- Tiwari, Bishwa Nath (2005), "An Appraisal of PR Strategy in Nepal" in Madan Dahal (ed.) *Nepalese Economy: Towards Building a Strong Economic Nation-State*, Kathmandu: Central Department of Economics, T.U. and New Hira Books Enterprises.
- TN and Jessica Wallack (2003), *Federalism and Economic Reform in a Global Economy*, Preliminary draft, Yale University.
- United Nations Capital Development Fund, (23-25 May, 2002), *Local Governance for PR in Africa*, Issue Paper No. 2, Fifth Africa Governance Forum (AGF V), Maputo, Mozambique.
- UNDP (2005), *HDR 2005*, New York.
- (2004), *Nepal HDR, 2004*, Kathmandu.
- (1998), *Nepal HDR, 1998*, Kathmandu.
- (1997), *HDR 1997*, New York.
- WB (2005), *Nepal Development Policy Review: Restarting Growth and PR*, PR and Economic Management South Asia Region.
- (2002), *Empowerment and PR : A Source Book*, Washington D.C.
- (2002), *Building Institutions for Markets*, *WDR, 2002*, Washington D.C.
- (2001), *Attacking Poverty: Opportunity, Empowerment, and Security*, *WDR, 2001*, Washington D.C.
- (1999), *Nepal: Poverty at the Turn of the Twenty-First Century*.
- (1999), *Nepal: Public Expenditure Review*, PR and Economic Management South Asia Region (Nepali Version).
- World Food Program (2001), *Nepal Food Security and Vulnerability Profile 2000*, World Food Program, Nepal.

## Annex 1

### **Terms of Reference**

#### **Objective/Purpose of the Assignment:**

To conduct a study on Expenditure patterns of local governance in the context of rural PA.

#### **Detailed Tasks:**

1. Review the responsibility given to the LBs in Nepal;
2. Review the present status of LBs' expenditure in Nepal;
3. Review the present status of poverty in the rural sector of Nepal;
4. Review the rural PR strategy adopted in Nepal;
5. Identify the role of LBs in PR strategy of Nepal;
6. Identify the CG's responsibility that can be transferred to LBs in the context of rural PA;
7. Suggest policy improvements needed to strengthen LBs to reduce rural poverty in Nepal;
8. Suggest policy action matrix containing (a) constraints (policy, legal, institutional, administrative, and others if applicable); (b) recommended policy improvements; (c) activities; (d) indicators of achievement; (e) responsible agencies; and (f) timeframe (immediate, intermediate, and long-term) to strengthen LBs' role in alleviating poverty in Nepal;
9. The paper should include an executive summary not exceeding five pages.
10. The consultant is requested to provide a short article, in English or Nepali, related to the above topic, to be published in a national daily for information dissemination.
11. Submit draft report (electronic and hard copy) to the EPN Focal Unit within 30 days from the date of assignment.
12. Present the draft at the Advisory Committee meeting (to be scheduled by the EPN).
13. Present revised draft (incorporating comments from the Advisory Committee and external reviewer) at the workshop organized by the EPN.
14. Present final report (incorporating comments from the Workshop) at the Advisory Committee meeting for final validation. Submit final report to the EPN Focal Unit (electronic and hard copy).

#### **Output/Reporting Requirements:**

Submit a report on completion of the assignment.

## Annex 2 Status of Rural Poverty in Nepal

### 1. Background

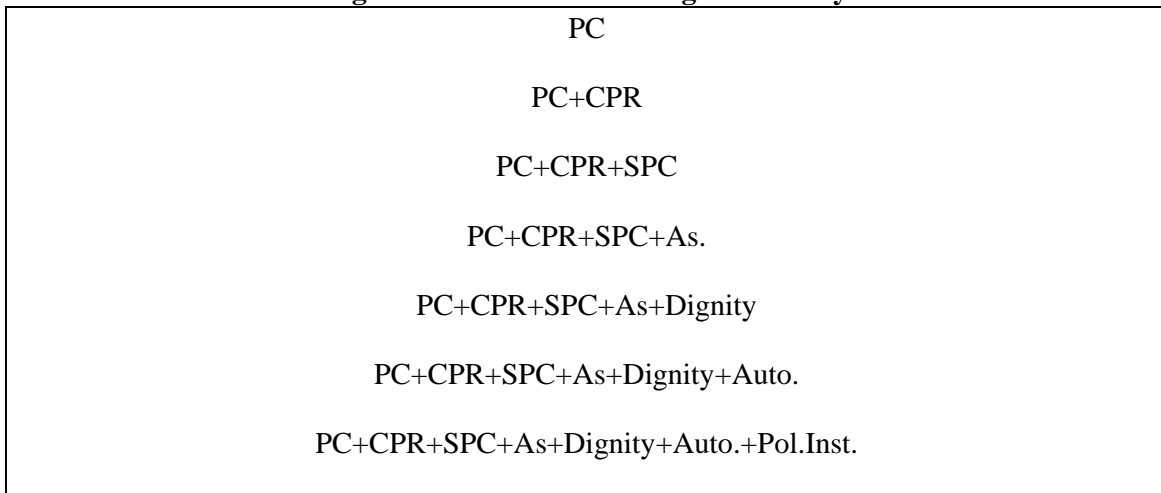
Cancer is funny thing, poverty is no less funny, says Amartya Sen. He defines it from different angles – biological, inequality, relative deprivation and value judgment (Sen, 1981 : 9).

WDR 2000/2001 defined poverty as lack of opportunity to participate in economic activity and contribute to development, powerlessness in relation to key decisions that affect their lives and vulnerability to economic and other shocks related to disease or injury, crop failures and macroeconomic recessions. It emphasizes on opportunity, empowerment and security (WDR, 2000/2001).

Poverty denotes that situation where opportunities and choices most basic to human development are denied (UNDP, 1990). Poverty is hunger, lack of shelter, being sick and not being able to see a doctor, not having access to school and not knowing how to read, not having a job, losing a child to illness brought about by unclean water, is powerlessness, lack of representation and freedom.

The meaning of poverty has been changed from time to time in historical perspective. Before 1950s, it used to denote for deficiency in private consumption. Some years later it was converted to lack of private consumption and common property resources and then it was converted to lack of private consumption, common property resources and state provided resources. During the changing context, the meaning of poverty also changed, currently denoting to lack of private consumption, common property resources, state provided commodities, assets, dignity, autonomy and political institution (As shown in figure 1 below).

**Figure 1 : Different Meanings of Poverty**



PC=Private Consumption, CPR=Common Property Resources, SPC=State Provided Commodities, As = Assets, Auto=Autonomy, Pol.Inst.=Political Institution

Source : Boex et al (2005), *Fighting Poverty through Fiscal Decentralization*, USAID.

Basically, there are two approaches of poverty – Income poverty and human poverty. Short discussions on them are presented below :

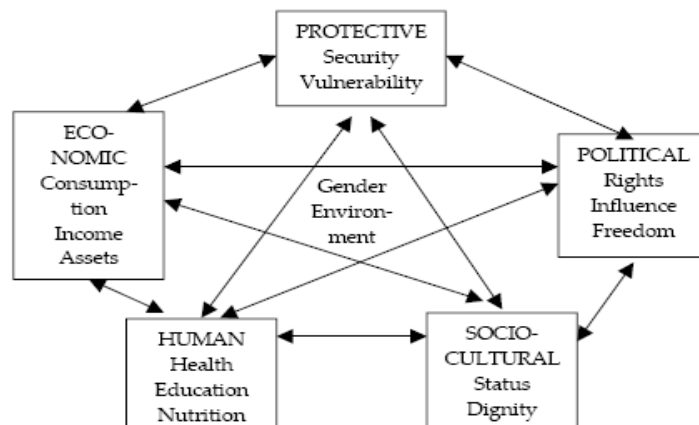
**a. Income Approach of Poverty** - Income poverty is defined in two bases. They are first, cost of basic needs approach and second, food energy intake approach. As per the cost of basic needs approach, the poverty is defined under certain level of income per capita. For example, WB defines poverty earning less than \$1 per day in 1985. It may be different to different countries consisting \$ 2 for Latin America, \$ 4 for transitional countries and \$14.4 for U.S. In Nepal, poverty line is taken as Rs. 6100 per capita income and 2164 calorie intake by a person.

**b. Human development approach of poverty** – It examines poverty in terms of achievement or outcomes. It takes poverty as the deficiency in human capability to function at a minimum acceptable standard in a given community.

## 2. Dimensions of Poverty

Poverty has different dimensions as presented in Figure 2. These dimensions include protective, political, socio-cultural, human and economic. In each of the dimensions there are sub-dimensions also as shown in Figure 1.

**Figure 2 : Dimensions of Poverty**



Poverty is measured by different methods – headcount rate, poverty gap and squared poverty. Headcount ratio presents the percentage of people below the line of poverty. Since headcount ratio can not show the severity of the poverty, poverty gap and squared poverty are calculated. The poverty gap measures the depth of poverty, i.e., how far below the poverty line are the poor on average as a proportion of that line. It is also the ratio at which rate the income should be raised to lift them above the poverty line. Squared poverty gap, on the other hand, measures severity of the poverty, i.e., the degree of income inequality among the poor people.

Poverty is a universal as well as relative phenomenon. It is universal because it existed not only in present world; it was at the time of Ramayana and Mahabharata also. There are poor people not only in Nepal but even in the richest country of the present world like America. It is relative because the definition of poverty may differ from time to time and country to country. From ancient time to some years ago, the poverty used to mean lack of food to eat; during 1960s, it denoted lack of adequate income and during 1970s, it indicated lack of

fulfilling basic needs. During 1980s and 1990s, it evolved from the notion of minimum level of subsistence to relative deprivation from maintaining the standards prevailing in given society (Boex et al, 2005: 2-2). Today it means deprivation from food, education, right of living, right of expression etc. Recently, other elements like capabilities, dignity, autonomy, vulnerability, voice, empowerment and participation have also been included.

World communities have focused its attention to poverty since some decades ago. United nation is the major world organ which is entertaining the poverty issue from the very beginning of its creation. The publication of HDR since 1990 and declaration of MDG are the major examples in this respect. Other multinational agencies like WB, IMF, ADB, WTO etc. also have concentrated some of their efforts in this field.

As other countries in the world, Nepal also has accelerated efforts to eradicate poverty for several years in past. Especially from Ninth Plan, the whole hearted effort of the government is concentrated on PA. Current TP and Nepal MDGs are the examples in this respect. All the organs of the country including LGs are given certain responsibility of performing work related to PA.

### 3 Poverty in Nepal

#### Income Poverty

As other LDCs, Nepal is a country covered by rural areas. There are 3913 VDCs in contrast to 58 municipalities in Nepal. Most of the municipalities are also of village type if compared with international standard. Out of the total household of 3.5 million and population of around 22.5 million as per 2001 census, 84% and 86 % respectively live in rural areas. Out of the total land area, 97 % is covered by rural areas. The percentage of rural sector in terms of population is highest in Mid-WDR followed by Far WDR, WDR, EDR and CDR respectively. The gap is of around 12% having almost 92 % of population in rural areas in case of Mid-WDR and 80% of population in CDR (Annex 4).

Table 1 below shows that the head count rate of poverty in Nepal is around 31 percent. In comparison to 1995/96 status, the rate of poverty is decreased from 42 percent to 31 percent. The urban rate of poverty in 2003/04 is 9.55 percent where as it is 34.62 percent in rural areas. This means the rural poverty position is almost four times higher than the urban poverty. Poverty gap in Nepal is 7.55 percent in 2003/04 having 2.18 percent in urban areas and 8.5 percent in rural areas. Within poverty gap too, the difference between urban and rural part is almost four times. The scenario of squared poverty is also not far from the earlier types of poverty measurement indicators being 0.71 percent in urban areas, 3.05 percent in rural areas and 2.7 percent in aggregate. Though, the poverty position is notable, it has been decreased in past years subsequently. There is change in poverty gap and squared poverty also.

**Table 1 : Nepal 1995-96 and 2003-04, Poverty Measurement by Urban and Rural (in percentage)**

Sector	Headcount Rate (PO)		Poverty Gap (P1)		Squared Poverty Gap (P2)	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Urban	21.55	9.55	6.54	2.18	2.65	0.71
Rural	43.27	34.62	12.14	8.5	4.83	3.05
Nepal	41.76	30.85	11.75	7.55	4.67	2.7

Source: GoN, CBS (2005), *Poverty Trends in Nepal*.

In respect of distribution of poor between urban and rural areas, out of the total poor, only 4.7 % live in urban areas where as 95.3% live in rural areas. Note that of the total population, 15 percent live in urban areas and 85 percent live in rural areas. That means the concentration of poverty is higher in rural areas than in urban areas (Table 2).

**Table 2: Nepal, Poverty Measurement by Urban and Rural**

Sector	Poverty Headcount Rate		Distribution of the Poor		Distribution of Population	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Urban	9.55		4.7		15	
Rural	34.62		95.3		85	

Source: GoN, CBS (2005), *Poverty Trends in Nepal*.

In respect to incidence of poverty in development regions, the highest ratio of poverty falls in Mid WDR comprising 45 % followed by Far WDR comprising 41 %. EDR has poor only 29 % of the total population. CDR and WDR has less incidence of poverty in comparison to Mid WDR, Far WDR and EDR. They both have 27 % of people below the poverty line. Of the total poor, 23 % live in EDR, 32 % live in CDR, 17 percent live in WDR, 18 % live in Mid WDR and 10 % live in Far WDR. It should be noted that of the total population, 25 % live in EDR, 37 % percent live in CDR, 19 % live in WDR, 12 % live in Mid WDR and 7.5 % live in Far WDR (Table 3).

**Table 3: Nepal 1995-96 and 2003-04, Poverty Measurement by Development Regions**

Sector	Poverty Headcount Rate		Distribution of the Poor		Distribution of Population	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
EDR	38.9	29.3	21	23.4	22.5	24.7
CDR	32.5	27.1	26.9	32.2	34.6	36.6
WDR	38.6	27.1	18.7	16.7	20.3	18.9
Mid WDR	59.9	44.8	18.5	17.7	12.9	12.2
Far WDR	63.9	41	14.8	9.9	9.7	7.5

Source: GoN, CBS (2005), *Poverty Trends in Nepal*.

In case of ecological belts, 32% of the population in Mountain is poor where as it is 35 percent in hill area and 28 % in Terai area. Of the total poor, 8 percent live in Mountain, 47 % live in Hill and 45% live in Terai. Again note that of the total population, 7 % live in Mountain, 42 % live in Hill and 51 % live in Terai (Table 4).

**Table 4 : Nepal 1995-96 and 2003-04, Poverty Measurement by Ecological Belts**

Sector	Poverty Headcount Rate		Distribution of the Poor		Distribution of Population	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Mountain	57	32.6	10.7	7.5	7.9	7.1
Hill	40.7	34.5	41.9	47.1	43	42.1
Terai	40.3	27.6	47.4	45.4	49.2	50.8
Nepal	41.76	30.85	100	100	100	100

Source: GoN, CBS (2005), *Poverty Trends in Nepal*.

According to the land ownership based poverty measurement, the poverty is concentrated on those people who have low quantity of land. The data presented in Table 5 shows that the maximum percentage of people (39.3%) have less than 0.2 hectares of land. Similarly, 38% of the people has up to 1 hectare of land. That means more than 77 % of people has only 1 hectare or less than 1 hectare of land. Of the total poor, 76 % come within the people who have less than 1 hectare of land. This covers around 69 percent of the people. All these mean

that poverty lies there where the land holding is very small. It is also seen that in 2003/4, the proportion of people of having less than 0.2 hectare and 0.2-1 hectare of land has been increased where as the people having more than 1 hectare of land has been decreased than in 1995/96.

**Table 5 : Nepal 1995-96 and 2003-04, Poverty Measurement by Land Ownership**

Sector	Poverty Headcount Rate		Distribution of the Poor		Distribution of Population	
	1995/96	2003/04	1995/96	2003/04	1995/96	2003/04
Less than 0.2 ha. of land	47.7	39.3	22.9	25.2	20.8	22.2
0.2 – 1 ha. of land	45	38.1	43.7	51.2	42	46.5
1-2 ha. of land	38.8	27.3	18.7	16	20.9	20.3
More than 2 ha. of land	38.9	23.8	14.6	7.6	16.3	11
Total	41.8	30.8	100	100	100	100

Source: GoN, CBS (2005), *Poverty Trends in Nepal*.

## Human Poverty

### a. Education and Health

As already said, there is another approach of poverty measurement. This approach covers education, basic health, empowerment and vulnerability as poverty indicators. Out of these indicators, education and health are basic items. The following table shows Nepal's position in terms of human development. As per the Table 6, child malnutrition is 48.3 percent and under 5 mortality rate is 83 percent. The table shows that only 88 percent and 28 percent of the population have the access to safe drinking water and sanitation. Total fertility rate of the country is 4.2 percent, maternal mortality rate is 539 per hundred thousand and percentage of births attended by skilled health staff is 10.9 percent.

**Table 6 : Social Poverty Status in Nepal**

Child malnutrition	48.3
Under-5 mortality rate pr thousand	83
Access to safe drinking water (% of pop)	88
Access to sanitation (% of pop)	28
Total fertility rate	4.2
<b>Maternal mortality rate</b>	<b>539</b>
% of births attended by skilled health staff	10.9
Net primary enrollment ratio gap (M-F)	8.7
Secondary school pupils - % of females	41
Use of contraception	46.8

Source: WB (2005), *Nepal Development Policy Review: Restarting Growth and PR*, PR and Economic Management South Asia Region.

### b. Urban-Rural difference in basic facilities

The major portion of poor people in Nepal lie in rural areas. So, urban rural difference is very high in each indicator like electricity connection, piped drinking water, flush toilet, pit toilet, no toilet, fuels used, flooring material etc., current fertility rate and use of contraception. This can be seen in Table 7.

**Table 7 : Basic Facilities in Rural and Urban Areas, Nepal 2001**

	Urban	Rural
Electricity connection	85.7	17.4
Piped drinking water	55.2	33
<b>Sanitation facility :</b>		
Flush toilet	58.3	6.1
Pit toilet	14.6	17.1
No toilet	20.1	75.3
Other	7	1.5
<b>Fuel used</b>		
Firewood	39.1	94.1
Kerosene	35.8	2.3
Other	25.1	96.4
<b>Flooring material</b>		
Earth/Mud	34.4	91.7
Other	65.6	8.3
Other	65.6	8.3
Exposure to mass media	40.6	10.3

Source : GoN, CBS (2003), *Population Monograph of Nepal, Vol.1.*

### **Social Inclusion and Empowerment**

For the development of a county, each and every unit of the society should be fully mobilized. But one of the tragedies of Nepalese society is the exclusion of female, dalits, janajatis and Madhesis from the main stream of the activities in the society. The following discussion shows this discrimination :

#### **a. Female discrimination**

In each of the human development indices except life expectancy, female are lagging behind the male. For example, the rate of schooling in primary, lower secondary, secondary and college level, male are ahead of female (Table 8). Both in urban and rural sector, the situation is similar showing acute female discrimination in rural area. As Table 2.10 shows, the female is in back side in each and every field

**Table 8 : Male and Female Status of Empowerment**

Subject	Male	Female
Population %	49.6	50.03
Average age	61.8	62.2
Literacy (above 15 years %	62.23	34.6
Ministers %	94.45	5.55
Member of house of representatives %	94.15	5.85
Member of National Assembly %	86.67	13.33
Government employee %	91.45	8.55
Judges %	97.96	2.04
Teacher %	74	26
Participation in communication sector %	88	12
Participation in foreign employment %	89.15	10.85
Land holdings %	89.16	10.83
Holding of house building %	94.49	5.51
Contribution in agriculture production %	39.5	60.5

Source : NPC (2002), *TP.*

The female discrimination exists in case of legislators, senior officials and managers, professionals, technical persons, clerks and office assistants etc. Opposite to this scenario, females occupy major place in labor class workers covering skilled and semi-skilled agricultural, forestry and fishery workers and elementary occupations both in rural and urban areas (Table 9). It is seen that women's participation in local elections, professional jobs, administrative jobs, share in incomes and empowerment are only 19.33 %, 18.75 %, 12.71%, 30.2% and 0.391 only. Male female discrimination is high in rural areas than in urban areas.

**Table 9: Percentage Distribution of Economically Active Population by Occupation, Nepal 2001**

	Urban			Rural		
	Total	Male	Female	Total	Male	Female
Legislators, senior officials and managers	2.2	2.9	1.0	0.3	0.5	0.1
Professionals	5.8	6.0	5.3	2.0	2.9	0.9
Technical and associate professionals	4.9	6.2	2.5	1.3	2.0	0.4
Clerks or office assistants	5.1	6.4	2.5	1.6	2.6	0.4
Service workers and shop and market sales workers	18.8	21.7	13.2	6.4	8.6	3.6
Skilled and semi-skilled agricultural, forestry and fishery workers	28.2	21.9	40.6	64	58.6	70.6
Craft and related trade workers	15.5	15.6	15.3	8.4	8	8.9
Plant and machine operators and assemblers	3.8	5.0	1.4	1.1	1.7	0.3
Elementary occupations	15.6	14.2	18.2	14.9	15.0	14.7
Not stated	0.1	0.1	0.2	0.1	0.1	0.1
Total	100	100	100	100	100	100

Source: GoN, CBS (2003), *Population Monograph of Nepal, Vol.1*.

Table 10 shows the gender empowerment index in Nepal where it can be seen that except in life expectancy, female are lagging behind the male in each area.

**Table 10 : Gender Empowerment Status**

		Nepal	Rural	Urban	Mountain	Hills	Terai
Life expectancy	Female	61.5	61.1	65.3	52.8	66.2	63.6
	Male	60.5	60.2	63.8	52.3	64.9	62.6
Adult literacy	Female	34.9	31.2	55.8	20.9	38.3	32.8
	Male	62.7	59.4	80.0	51.9	67.4	59
Mean years of schooling	Female	1.95	1.60	4.06	1.25	2.27	1.73
	Male	3.56	3.10	6.06	2.84	3.90	3.34
Estimated earned income	Female	0.345	0.319	0.403	0.370	0.395	0.317
	Male	0.485	0.468	0.582	0.430	0.482	0.481
GDI		0.452	0.430	0.562	0.363	0.498	0.450
Relative value - Nepal		100	95	124	80	110	100
GDI/GDH		0.959	0.952	0.967	0.941	0.973	0.943

Source : UNDP (2004), *Nepal HDR 2004 : Empowerment and PR*.

### b. Ethnic Discrimination

Nepal is a country with many castes, clans and ethnic groups. In the social sphere, the upper cast people covering Brahmin and Kshetri which cover 26.3 (Some documents show 28 %) of people are most advantageous groups and Dalits which cover almost 7.4 % (12 % including Terai Dalits) of the people are the most discriminated groups. Of the upper cast people 18.4

% are poor where as of the dalits 45.5% are poor. Of the total poor, dalits cover 10.9% where as upper cast people cover 15.7%. Janajati people covering 19.5% of population cover 27.8% of the total poor. Within Janajatis, 44% of the people are under poverty line (Table 11).

**Table 11 : Poverty Measurement by Caste and Ethnicity of the Household Head**

Sector	Poverty Headcount Rate 2003/04	Distribution of the Poor 2003/04	Distribution of Population 2003/04
Upper Caste	18.4	15.7	26.3
Yadavs	21.3	1.9	2.8
Dalits	45.5	10.9	7.4
Newar	14	3.4	7.5
Hill Janajati	44	27.8	19.5
Tharu	35.4	9.2	8.1
Muslims	41.3	8.7	6.5
Other	31.3	22.3	21.9
Total	30.8	100	100

Source : GoN, CBS (2005), *Poverty Trends in Nepal*.

Table 12 shows human empowerment index differences between urban sector and rural sector in Nepal.

**Table 12 : Human Empowerment Indices in Rural, Urban, Mountain, Hills and Terai**

	Nepal	Rural	Urban	Mountain	Hills	Terai
Social empowerment index	0.406	0.604	0.372	0.315	0.476	0.362
Economic empowerment index	0.337	0.518	0.304	0.236	0.310	0.392
Political empowerment index	0.646	0.737	0.642	0.526	0.568	0.674
Human empowerment index	0.463	0.620	0.439	0.359	0.451	0.476
Relative value (Nepal = 100)	100	134	95	78	97	103

Source : UNDP (2004), *Nepal HDR 2004 : Empowerment and PR*.

### Vulnerability

It is seen that people who are poor are in vulnerable situation, affected more from natural calamities, economic disaster and social conflict in comparison to well-to-do people. It has been found that asset poverty is the primary determinant of vulnerability (e.g. in food) throughout much of Nepal. The vulnerable people include who are landless and laborers including bonded labourers, who are tenants, or who have only a small piece of unproductive or unirrigated land, with a small number of able-bodied workers, with few skills and little opportunity to derive income from sources other than agriculture such as remittances, households without access to income from trading opportunities, employment in the service sector or from pensions, and who instead rely on apparently uncertain, casual employment as agricultural labourers, porters etc. In macro aspects, the criteria of the vulnerable settlements include access to infrastructures including roads, markets, irrigation, access to services, remoteness, productivity, employment opportunities; socio-economic characteristics including disadvantaged castes and ethnic groups, illiteracy; environmental features including geography or remoteness; risk factors including natural disasters, diseases relating to human, animal and plants. Households belonging to occupational castes such as Kami (blacksmith), Damai (tailor) and Sarki (cobbler) and disadvantaged castes such as Tamang, Sherpa, Magar, Thami, Danuwar, Majhi, Bote and Gaine in the hills and mountains, and Chamar, Musahar, Tatmas, Bhand, Satar, Dhankar, and Badi in Terai are also commonly included among the most vulnerable. In terms of geographic access, the most remote areas include the mountain districts, particularly in the Karnali mountain region, and some hill regions (WFP, 2000).

**Annex 3**  
**Policy Action Matrix**  
**In Case of Present Status**

<b>Constraints</b>	<b>Policy</b>	<b>Action/ Activities</b>	<b>Indicators of Achievement</b>	<b>Responsible Agency</b>	<b>Time Frame</b>
Insufficient recognition of LBs as poverty reduction center	Making Lbs as poverty reduction centre	Giving responsibilities, revenues etc.	Government Policies making LBs as poverty reduction centre	GoN	One year
Non-delivery of revenue source by CG	Devolve the revenue sources as far as possible	Delivery of revenue source by CG	Transfer of revenue source and right of determining the rate	GoN	Three months
Low transfer to LBs	Increase the amount of transfer to the LBs	Increase in transfer amount	Increased amount in money received by LBs	GoN	Three months
Lack of lending authority	Make the lending procedure of LBs more easier	Providing lending right	Allowing lending right through legal provisions	GoN	Three months
Insufficient financial regulations	Strengthen the financial regulations of the LBs	Making hard financial regulations	Framing of new financial regulations	GoN	One year
Insufficient data base related to local incomes and local expenditures	Make strong data base of the LBs especially in DDCs	Collection of data from VDCs and strengthening the DDC information and documentation centre	Availability of data related to financial statistics	GoN	Three years
Insufficient poverty mapping in VDC level	Making detail survey of poor in VDC level	Household survey of poor	Detailed poverty mapping	GoN	Three years
Expenditure Classification not directed to poverty reduction	Classification of expenditures concentrating on poverty reduction	Reclassification of expenditure	Reclassified expenditure heads	GoN	One year
Unclear division of recurrent and capital expenditure	Classifying the expenditure	Redefining of recurrent and capital expenditure	Redefined expenditures	GoN	One year
Very low amount of tax collection	Enhance taxing capability	Training to the LBs	Capacity enhancement in tax collection	GoN and LBs	Three years

Insufficient planning and programming in LBs	Strengthening LBs	Enhancing the capability of LBs for planning and programming	Plans and Programs made by LBs	GoN	Two year
Economically and politically unviable LBs	Restructuring the LBs	Reshaping the LBs	Reshaped VDCs and DDCs	GoN	Three years
Insufficient expenditure tracking	Tracking expenditure and taking action if misused	Developing institutions and policy	Action taken to those misusing expenditure	GoN	One year
Insufficient resources to Far and Mid-WDR	Increasing concentration in the Far and Mid-WDR	Increasing the resources	Reduced poverty	GoN	Three years
Unskilled staff	Spend more on human development	Training	Increased skill and capability of employee	GoN and LBs	Three years
Lack of sufficient infrastructure	Spend more on rural roads and agricultural research and extension	Increase in money given to LBs	Increased infrastructure	GoN and LBs	Five years
Irregularities related to local bodies	Introduce the technique of expenditure tracking	Introducing process of expenditure tracking	Low level of corruption	GoN and LBs	One year
Irregularities related to fund and inefficient service delivery	Increasing monitoring of social service providing institutions of the LGs	Increasing monitoring	Low level of corruption	GoN and LBs	One year
Non-transparency	Increase the scale of information flow to media	Communication of information	Transparent financial activities	LBs	One year
Non-participation	Increase the participation of different communities like women, dalit, janajatis and underprivileged group	Mobilization of deprived people	Increased participation	LBs	One
Corruption	Make the assistance amount more transparent	Rule based assistance	Assistance money received by needed people	LBs	One year

Loss of lives and property of deprived people	Empower them for saving from natural calamities, illness etc	Insurance	Insured number of people	LBs	One year
Lack of food security	Save poor by having food security	Deposit and distribute food	Lack of hunger	GoN and LBs	Three years
Lack of income generating programs	Implement more income generation program like micro-credit, natural resource management	Introduction and enhancement of credit operation agencies	Increase in resource mobilization of poor	GoN, LBs and donor agencies	Three years
Low capability of local bodies	Capability enhancement	Training, infrastructure	Capable LB's employee with infrastructure	GoN and LBs	Five year
Diversity in expenditure classification	Uniform expenditure classification	Re-classification of LBs expenditure	Uniformity in expenditure classification	GoN	One year
Indirect funding	Sending more money directly	Sending more money directly	Increased amount of money received directly	GoN	One year
Insufficient fund in LDF and Garibsanga Bisheshwor	Increasing the amount of money in Local Development Fund and Garibsanga Bisheshwor		Increased activity of LDF and Garibshang Bishewor	GoN	One year
Weak Financial System	Create strong financial system	Emphasizing on budget, audit, report	Increased transparency	GoN	Three year
High administrative expenses	Increase capital expenditure	Efforts to reduce recurrent expenditure	High capital expenditure	GoN	Three years
No proper use of funds	Saving money from misuse	Making appropriate system	Use of increased transfer	GoN	Six months
No DPP	To proceed the works related to PR	Formulation of DPP	DPP	Concerned districts	One year
No review of DPP	Expediting the work	Developing criteria and direction	Efficient implementation	GoN	Two year
No linking between DPP and annual budget	Linking the long term budget and short term budget	Developing criteria and directing	DPP and annual budget complied	Concerned districts and GoN	Two year

Lack of manpower responsible to local bodies	Making employees responsible to local bodies	Implementation of LSGA	Bringing employees in the jurisdiction of local bodies	GoN	One year
Contradicting laws against LSGA	Making LSGA implementation easier	Amending the acts against LSGA	Amendment of Acts	GoN	Three months
No effective use of local bodies association	Making the implementation of decentralization policy easier	Taking help of local bodies in more areas	More participation in policy formulation, implementation and monitoring	GoN	One year
Inadequate appraising and evaluating system	Making projects implementation more effective	Initiating the appraisal and evaluating system	Effective implementation of project	GoN	One year
No activation of DIMC	More effective implementation and monitoring of decentralization activities	Holding meeting of DIMC and appointing members for DIMC Working Committee	Meeting held and appointment of members	GoN	Six months

#### **In Case of Restructured Local Bodies**

Non-recognition as local government	Recognizing LBs as government	Introduction in Constitution and amendment in acts	Changed legal provisions	GoN	One year
Confusion in relation to LBs	Making study	Making expert team			
No Constitutional assignment of responsibility	Creating constitutional liability	Local Bodies' role incorporating in constitution	New constitution which have covered local bodies' role	Interim constitution drafting committee	Three months
Uneconomic size	Reshape the LBs, especially, the VDC	Restructuring of LBs	Reshaped LBs	GoN	One year
Non-delivery of adequate responsibilities by CG	Devolve the services like education, health, agricultural services etc.	Delivering the responsibilities to local units	Transfer of responsibility	GoN	Three months

#### Annex 4

##### Households, Population by Sex and Density for Urban and Rural Areas in Nepal

	Households	Total.Pop.	Male	Female	Area sq.KM	Pop. Density per sq.KM
<b>EDR</b>	<b>1000358</b>	<b>5286890</b>	<b>2642320</b>	<b>2644570</b>	<b>28456</b>	<b>188</b>
Urban	127174	624610	318622	305988	905.2	690.01
Rural	873184	4662280	2323698	2338582	27550.8	
% of rural in total	87.3	88.2	87.9	88.4	96.8	
<b>CDR</b>	<b>1465753</b>	<b>7988612</b>	<b>4088292</b>	<b>3900320</b>	<b>27410</b>	<b>293</b>
Urban	335499	1605264	843943	761321	809.59	1982.81
Rural	1130254	6383348	3244349	3138999	26600.41	
% of rural in total	77.1	79.9	79.4	80.5	97.0	
<b>WDR</b>	<b>863045</b>	<b>4571013</b>	<b>2198170</b>	<b>2372843</b>	<b>29398</b>	<b>155</b>
Urban	113324	520826	259361	261465	575.17	905.52
Rural	749721	4050187	1938809	2111378	28822.83	
% of rural in total	86.9	88.6	88.2	89.0	98.0	
<b>MidWDR</b>	<b>479817</b>	<b>2707244</b>	<b>1349073</b>	<b>1358171</b>	<b>42378</b>	<b>71</b>
Urban	45525	231375	117699	113676	376.28	614.9
Rural	434292	2475869	1231374	1244495	42001.72	
% of rural in total	90.5	91.5	91.3	91.6	99.1	
<b>Far WDR</b>	<b>365401</b>	<b>2183175</b>	<b>1081523</b>	<b>1101652</b>	<b>19539</b>	<b>112</b>
Urban	42985	245804	124737	121067	610.02	402.94
Rural	322416	1937371	956786	980585	18928.98	
% of rural in total	88.2	88.7	88.5	89.0	96.9	
<b>Nepal</b>	<b>4174374</b>	<b>22736934</b>	<b>11359378</b>	<b>11377556</b>	<b>147181</b>	<b>157</b>
Urban	664507	3227879	1664362	1563517	3276.28	985.23
Rural	3509867	19509055	9695016	9814039	143904.72	
% of rural in total	84.1	85.8	85.3	86.3	97.8	

Source : HMG/Nepal, CBS (2002), *Population Census 2001: National Report*.

#### Annex 5

##### Selected Measures of Human Development in Urban and Rural Areas

	Urban	Rural
GDP per capita (PPP US\$ (2000))	2133	1094
Human development index (2000)	0.616	0.446
Education index (2000)	0.568	0.376
Life expectancy index (2000)	0.769	0.562
Gender related development index (2000)	0.605	0.426
Gender empowerment measure	0.443	0.333
Human poverty index (2000)	0.23.9	41.4
Chronic Malnourishment among children under 5 years (%)	36.1	56.3

Source : GoN, CBS (2003), *Population Monograph of Nepal, Vol.1*.

**Annex 6**  
**Targets of Millennium Development Goals**

Variables	1990	2005	2015
<b>Income Poverty</b>			
% of people below the income of \$ 1 per day	33.5	24.1	17
% of people below national poverty line	42	31	21
% of people below minimum level of dietary energy consumption	49	-	25
% of underweight children	60	-	30
<b>Education</b>			
Net enrolment in primary education	64	84	100
Literacy rate of 15-24 years	49.6	73.1	100
<b>Empowerment of women</b>			
Ratio of girls to boys in primary school	0.56	0.86	1.0
Ratio of girls to boys in secondary school	0.43	0.82	1.0
Ratio of women to men in tertiary level	0.32	-	1.0
Ratio of literate women to men from 15-24 years old	0.48	0.73	1.0
<b>Health</b>			
Infant mortality rate	108	61	34
Under five mortality rate	162	91	54
Immunize against measles	42	85	>90
% of safe delivery	7	20	60
Contraceptive users rate	24	-	67

**Annex 7**  
**Rural Roads in Nepal**

Region	Classification	Total Length	Construction Status (Km)		
			Complete	Under Construction	Planned
Eastern	A	2953	1934.2	782	231.3
	B	4474.1	3792.2	467.7	458.2
Central	A	3814	3469	125.5	182.5
	B	5104.2	4755.4	1.8	330.1
Western	A	3984.3	2734	255.6	966.3
	B	3846.9	3004.8	54.2	734
Mid-Western	A	1365.7	298.5	225	298.5
	B	2107.2	1068.7	108.2	1068.7
Far-Western	A	1898.7	723.9	245.1	880.7
	B	998.2	323.6	245	429.6
Total	A	14015.7	9159.6	1633.2	2559.3
	B	16530.6	12944.7	876.9	3020.6
Grand Total	-	30546.3	22104.3	2510.1	5579.9

Source : DoLIDAR, Nepal